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EGYPT

EXPORT ENTERPRISE DEVELOPMENT

263-0226

PROJECT PAPER

Signed on 9/02/91

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EXPORT ENTERPRISE DEVELOPMENT PROJECT PAPER
(No. 263-0226)
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**EXPORT ENTERPRISE DEVELOPMENT PROJECT
(No. 263-0226)**

Project Paper

I. EXECUTIVE SUMMARY AND RECOMMENDATIONS

This Project Paper presents the rationale, detailed description, analytical findings and implementation plan for the Export Enterprise Development Project sponsored by USAID/Egypt. The project is designed to assist Egypt in meeting the need it has clearly identified -- to increase private sector exports and foreign exchange earnings, and is timed to take advantage of recent economic policy changes and infrastructure improvements that make such increases possible.

The project will have two components: Proactive export promotion and information services development. The project is phased, with Phase II support being conditioned on successful achievement of predetermined goals during Phase I. The project has been targeted to focus activities on two export sectors, vegetables and fruits (non-citrus) and light manufactures. Implementation of the project will be accelerated by the use of USIPO, an existing USAID-funded organization, as executing agency. USIPO has achieved important institutional improvements and gained practical experience in export promotion in recent years. The project design includes additional structural reforms, technical assistance and training to augment USIPO's organizational capabilities and effectiveness.

A. Introduction

Egypt's worsening trade and current account balance is a serious constraint to the economic growth of the nation. Improving this imbalance will clearly require an increase in foreign exchange earnings and a substantially higher level of productivity. Worldwide experience indicates that a higher growth of export earnings could follow from an Egyptian export promotion effort. A more active export sector would also serve to attract more investment. Egypt, however, has a long history of state-dominated, inward-oriented economic strategies that have resulted in an institutionalized anti-export attitude.

The effect of these strategies and attitudes has been a bias toward import substitution, reflected in distorted pricing, excessive regulations, a lack of private investment, preferential treatment for public enterprises, and a lack of export-oriented

production and marketing incentives. Accordingly, the project is based on two premises, i.e., that Egypt needs: (a) to increase its exports to earn more foreign exchange; and (b) to introduce Egyptian producers to foreign markets and hence to the requirements of international competition.

B. Project Description

The goal of this five-year project is to increase Egypt's sustainable economic growth through expanded foreign exchange earnings. The purpose is to increase non-traditional exports produced by Egypt's private sector.

The project will work within a two-tier program. The two-tiered approach is based on the industrial structure of the target product areas with the greatest potential. The proposed USAID project will finance assistance to support firms within the first tier -- those most likely to achieve near-term increases in exports. Assistance for the second tier firms -- those with export potential, but only over the longer term -- will be provided primarily by other USAID projects or activities funded by other donors, such as a possible European Community (EC)-funded project.

The proposed project will effectively build on the positive experience gained by USIPO under an ongoing USAID-financed activity scheduled to terminate in October, 1991. The Egypt-U.S. Joint Business Council (JBC), USIPO's parent organization, serves as the implementing agency for the current and proposed projects. The project will complement Mission policy dialogue efforts by financing USIPO's efforts to promote exports (through training, technical assistance, information dissemination, etc.) and to indicate through higher export earnings the benefits of an export-led development strategy.

The proposed project has two functional components that are interrelated so that the project will offer a comprehensive set of activities to stimulate Egyptian exports. The core component, Proactive Export Promotion, will provide hands-on assistance to Egyptian producers to assure successful export transactions. A second component, Information Services Development, will assist USIPO to develop and disseminate promotional materials and to create and maintain an information base to respond to requests from potential Egyptian and foreign business partners.

Based on the results of the analysis carried out during the development of the project paper, it was decided to focus the project activities on two nontraditional export sectors -- fruits (non-citrus) and vegetables, and light manufacturing. Specific potential product lines are identified in Section II.B.3.

The project will be phased, with the second phase being contingent on the achievement of specific institutional and quantitative objectives (see section II.B.6).

USAID will enter into a bilateral grant with the Ministry of International Cooperation (MIC) which will provide for USAID to enter into a direct grant agreement with the implementing agency, the JBC, under a similar arrangement as is currently in place to provide assistance to USIPO.

C. Cost Estimates and Financial Plan

The total life-of-project funding required is estimated at \$12.5 million, \$10.0 million of which will be provided as an AID grant and \$2.5 million of which will be provided by the Egyptian private sector. Of the \$10.0 million AID grant, \$5.3 million will be allocated to USIPO's operations concentrating on proactive export promotion, \$4.4 million to technical assistance and training, and \$0.3 million for evaluation and audit. Local counterpart funding will take the form of fees for services, fees for participation in project activities (e.g., trade shows, seminars, sector development programs, etc.) and contributions in kind (see the section on a USIPO long-term funding strategy in Annex D, Institutional Analysis).

AID funding for the three-year period of Phase I will amount to \$6.5 million, and Phase II funding will total \$3.5 million. As indicated in section II.C, project funding will cover USIPO's operating expenses, technical assistance, export promotion expenses, training, travel, investment feasibility studies, and project audits and evaluations.

Assistance will be provided under the project using essentially three contracting arrangements. First, a Cooperative Agreement between USAID and JBC will provide resources to finance USIPO's operating expenses, small value contracts with local TA firms, and the cost of the trade shows and seminars. Second, a U.S. consulting firm, selected on a competitive basis, will be contracted directed by USAID under an umbrella arrangement to provide a package of long-term and short-term expatriate TA, training and provisions of an MIS. Third, short-term expatriate technical assistance services will be obtained using direct USAID contracts and AID/W buy-in mechanisms to respond to identified firm and sector specific needs and to complete the required project evaluations (see Section IV B. for more detailed discussion).

D. Project Negotiation Status

All principal aspects of the project have been discussed with the Government of Egypt (GOE), the JBC and USIPO. USIPO has been actively involved in the design of the project activities and in developing the detailed implementation plans. Preliminary agreement has been reached with both the GOE and USIPO regarding the required resources and the specific conditions and covenants. It is anticipated that the GOE's formal letter of request will be submitted to USAID within the next few weeks.

E. Recommendation

The project committee recommends approval and authorization of a \$10 million grant to be made to Egypt to finance an export promotion program to be carried out by the U.S. Investment Promotion Office (USIPO) over the next five years.

GLOSSARY OF ACRONYMS

Export Enterprise Development PP

FEPRO	Federation of Agricultural and Agro-Industrial Producers
FIDE	Foundation for Entrepreneurial Research and Development
FSN	Foreign Service National
FSP	Feasibility Studies Program
GAFI	General Authority for Investment and Free Zones
GOE	Government of Egypt
IESC	International Executive Service Corps
IMF	International Monetary Fund
JBC	Joint Business Council
L/C	Letter of Credit
LE	Egyptian Pounds (local Currency)
LOP	Life-of-Project
MIC	Ministry of International Cooperation
MTAP	Market and Technology Access Project
OYB	Operational Year Budget
PC	Project Committee
PID	Project Identification Document
PIL	Project Implementation letter
PP	Project Paper
PSC	Personal Services Contractor
TA	Technical Assistance
TDP	Trade and Development Program
USDH	U.S. Direct Hire
USIPO	United States Investment Promotion Office

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II. PROJECT RATIONALE AND DESCRIPTION

A. Project Rationale

1. Background

Egypt today faces a number of formidable economic challenges of increasing urgency. Shortages of foreign exchange and missed targets of opportunity characterize its present situation. All of these have been exacerbated by the political turmoil and recent conflict in the Persian Gulf.

Of prime importance is the worsening of Egypt's present trade and current account balances, a negative growth pattern which is not sustainable. The trade deficit for 1989-90 grew to a record \$7.5 billion from \$5.7 billion in 1986/87. Foreign currency earnings from exports fell from a high of \$4.2 billion in 1984-85 to \$2.7 billion in 1988-89. The current account deficit increased from \$2.94 billion in 1987-88 to \$3.2 billion in 1988-89.

Any meaningful redress of the current account imbalance will clearly require an increase in foreign exchange earnings and a substantially higher level of productivity. The fact that Egyptian commodity export earnings cover only 33 percent of import costs is a major contributing factor to the deficit, and a drain on foreign exchange. The performance of other countries undertaking export promotion programs, and evidence collected in interviews with Egyptian producers/exporters,¹ suggest that higher growth of export earnings could follow from an effective export promotion effort.

A more active export sector would also serve to attract more investment. Egypt, however, has a long history of state-dominated, inward-oriented economic strategies that have resulted in an institutionalized anti-export mentality. The effect of these strategies has been a bias toward import substitution, reflected in distorted pricing, excessive regulations, a lack of private investment, preferential treatment for public enterprises, and a lack of export-oriented production and marketing incentives.

While the GOE increasingly recognizes the role of the private sector in the growth of the economy, it has been very slow to reduce the role of the public sector in controlling the factors of production and to allow market forces to allocate resources. Nonetheless, the process for making the necessary policy and regulatory changes has begun through IMF and World Bank structural adjustment negotiations. The recent freeing up of the exchange rate and interest rates is one critical element of price-directed resource allocation, but other equally fundamental adjustments will take more time.

2. The Outlook for Exports and Export Enterprises

Until the latter part of the 1980s, Egypt's import substitution policy regime was supported by a diversified number of sources of foreign exchange earnings. Foreign exchange income from petroleum exports, non-petroleum exports, tourism and Suez Canal fees each fell into the range of \$1-2 billion per year. These earnings were supplemented by substantial inflows of workers' remittances (about \$3.4 billion in FY 1987/88) and foreign aid in excess of \$1.0 billion annually. The Gulf conflict seriously affected many of these sources of exchange, particularly workers' remittances, canal fees and tourism. This pointed up the vulnerability of Egypt's economy to instability in the Middle East, and the consequent need for more attention to be placed on merchandise exports.

Egypt's composition of exports is dominated by two traditional commodities, petroleum and cotton (raw fiber and yarn), which collectively account for about two-thirds of the nation's sales of merchandise exports. Cotton fiber sales in 1989 held a share of over one half of agricultural exports, and sales of cotton yarn accounted for nearly one third of manufactured exports. The GOE controls almost all exports of petroleum and cotton.

As explained in more detail in the Technical Analysis (Annex C), the economic environment for export promotion activities has improved significantly in recent years, and especially in the past five months as a result of measures taken as part of Egypt's Economic Reform Program.

Of major import is the recent move toward a free foreign exchange market on February 27, 1991. The new system now enables approximately 52 percent of all dollar transactions to be determined at market rates, with the remainder not more than 5 percent below that rate. By February 1992, these two rates will merge into a single market rate.

The price of foreign currency has been the single most important policy constraint facing Egyptian firms engaged in international trade. As a result of the February 27, 1991 initiative, exporters are now getting about 20 percent more Egyptian pounds for their products. A market-valued exchange rate has already given exporters a significant boost toward becoming price competitive. With the devaluation of the Egyptian pound and the establishment of a market-based exchange rate system, perhaps the most important condition for successful export promotion has been put in place.

As a result of the Structural Adjustment Program being implemented with the World Bank and the proposed trade sector reform project being developed by USAID, the Egyptian Government is expected to continue to liberalize trade policy and thereby eliminate the most important constraints to export growth. Important steps include the reform of the duty drawback and exemption program, the establishment of a competitive and open cotton processing industry, and the elimination of import bans except for health or security reasons.

The GOE appears to be making steady progress in its transition from a highly interventionist centrally planned economy with massive price distortions to one that is market-based and outward-oriented. For example, as a part of the proposed SAL with the World Bank, the GOE is committed to a program to correct the distortions that currently exist in the procurement prices paid to producers of different varieties of cotton. In addition, President Mubarak on May 1, 1990 announced a Privatization Program which calls for an increase in private sector ownership and management. Since the announcement the GOE has sold its shares in one joint-venture company and has agreed on the sale of one prominent hotel for \$75 million. Over 1,900 local, government-owned enterprises have been put up for sale, with 1,166 sold to date. Assets with a book value of about LE 475 have been, or are to be, offered for sale by 34 public enterprises, and two have been completed.

The GOE has also reduced import bans from having a production coverage of 37.2 percent (of total manufacturing and agricultural production) to one of 22.7 percent. The planned GOE adjustment program focusses on phasing out the majority of the nontariff barriers within the next two years.

Another important part of the GOE's economic reform program is the enactment of a new Public Investments Law which will replace Law 97 and will enhance competition and permit privatization and subject public enterprises to increased financial discipline. The government has also begun efforts to reduce substantially the subsidies, loan guarantees and easy access to credit provided to public enterprises. Finally, for industrial goods produced by public enterprises, the government's economic program contains an action program for price liberalization that both takes into account the competitiveness of the domestic market and is compatible with the pace of import liberalization. Only 26 percent of total industrial production now remains subject to any form of administrative pricing (as opposed to 53 percent at the beginning of the program).

Egypt possesses a solid domestic resource base, giving it a potentially strong comparative advantage across a broad range of economic activities. It has considerable potential in consumer and intermediate goods for Middle Eastern and European markets,

labor-intensive manufactured goods, non-traditional agricultural exports, and tourism. The country is well positioned both geographically and politically to penetrate the markets of Europe and the Middle East.

Establishing an export business in Egypt is rarely an easy process, but a growing amount of evidence indicates that successful export ventures can be achieved. Egypt's nontraditional manufactured goods exports grew from \$523 million in 1985 to \$1,178 million in 1989, at an annual rate of 22.5 percent.² The share of private sector exports in this category rose from 8.0 percent to 34 percent of total nontraditional manufactured-good exports over this period. This occurred even in a policy environment basically more conducive to import substitution.

USIPO's experience to date offers valuable insight into promising areas of export promotion. Expansion of Egyptian firms operating at full export capacity, for example, might be limited by obstacles related to technical production capabilities or other inputs needed for successful exporting. These and related constraints in the export infrastructure need to be addressed if Egypt is to gain significant access to European and Middle Eastern markets (see Annex C).

3. USAID Strategy

To date, USAID interventions in the export and private investment sectors have been modest, reflecting the unfavorable policy environment. The Mission's approach has been to strengthen those local institutions tasked with fostering investment, develop the local private sector's capacity to facilitate U.S. investment, and provide financing facilities through Egyptian commercial banks.

The FY 89 CDSS indicates that the critical problem for Egypt is low economic productivity, and the primary factor preventing the economy from producing at its full potential is an economic system which stifles market forces. The broad economic reforms outlined in the CDSS dealing with productivity and a free market economy will be supported through the project. In particular, this project will stimulate export growth through proactive promotion and improved information and business services. This project also supports a strategic goal stated in the FY 90 Action Plan: Strengthen the private sector's capability to develop export and investment opportunities.

The U.S. Investment Promotion Office was established in 1981 with USAID assistance to promote U.S. investment in Egypt. Subsequently, USIPO began to promote Egyptian exports. A recent evaluation of USIPO concludes that its export promotion activities have been able to fare better than its efforts to

promote U.S. investment in Egypt, and that achievements in promoting Egyptian exports are likely to continue to increase. USIPO's shortfall in investment promotion performance, on the other hand, has mainly been due to factors beyond its scope and control, e.g., inappropriate economic policies and major bureaucratic barriers.

The comparatively favorable results in export promotion in contrast to investment promotion are similar to those experienced in other AID programs world-wide, and give impetus to the immediate focus of this project on the former. A recent summary of the AID-financed Market and Technology Access Project concluded that even large amounts of funds will not be able to establish an effective investment program in a country with an unfavorable investment climate. However, it is also true that the private sectors in many countries with undesirable investment environments have had positive results with programs to increase export capabilities through linkages with foreign firms for technology sharing and co-production. Based on these experiences, the proposed project will consolidate and expand on the achievements made in securing export sales contracts, exploring opportunities in Egypt's nontraditional export sector and building a natural private sector constituency through USIPO and its activities among export-oriented firms.

This project will represent one element in the Mission's overall strategy to support the fuller integration of Egypt into the competitive world economy. The project will support activities which can accelerate the growth of private sector exports to hard currency markets. These activities will help private Egyptian firms access markets in Europe and the Gulf. By introducing Egyptian producers to external markets, the project will encourage Egyptians to become more attuned to foreign market needs and to the rigors of international competitive forces.

The project is not directed toward effecting reforms to overcome existing macro policy constraints. To address serious policy and regulatory constraints, the Mission is considering a series of initiatives, including the development of an export sector program under which grants might be linked to policy changes. Nevertheless, this project will complement and contribute directly to policy reform initiatives by (1) developing a constituency of pro-export private firms that will support market-oriented reforms, (2) indicating through increased export earnings the concrete benefits of a switch from import substitution to export promotion policies, and (3) identifying and addressing specific firm-level constraints to export expansion.

B. Project Description

1. Project Goal and Purpose

Goal: To increase Egypt's sustainable economic growth through expanded foreign exchange earnings.

Purpose: To increase non-traditional exports produced by Egypt's private sector.

2. End of Project Conditions

Indications of purpose achievement and End-of-Project-Status (EOPS) will be:

- Private sector exports increased by \$75 million from firms directly assisted by the project;
- A total of approximately 100 firms will have been provided marketing and technical assistance;
- An increased number of products and/or volume of exports, to European and Middle Eastern markets, including at least 10 fruit/vegetable products and 5 light manufacturing products; and
- The export base broadened in target sectors, by increasing the capacity of present exporters and by expanding the number of exporting firms in each sector.

Phase 1 targets. USIPO will begin to conduct promotion and technical assistance activities upon project initiation. However, during the first three-year phase considerable attention will be devoted to strengthening the organizational capacity of USIPO, and to preparing and implementing sectoral promotion strategies. Continuation of the project and USAID funding of the second two-year phase will be contingent on the successful accomplishment of the following:

- Material progress toward achieving the export expansion target, with project assisted firms increasing exports by at least \$40 million by the end of year three of the project (see Annex E, Table 1).
- Provision of marketing and/or technical assistance to at least 80 export firms by the end of year three of the project (see Annex E, Table 1).
- Preparation and implementation of a detailed organizational strategy, including a long-term financial plan for USIPO;

- Design and execution of staff training for all USIPO professionals;
- Establishment of effective management information systems (MIS) for export lead management, activity evaluation and information dissemination;
- Completion of a specific plan to provide marketing and technical assistance to Tier 2 firms (see discussion below) by USIPO and Tier 1 firms;
- Preparation and initiation of sectoral promotion strategies for fruit/vegetable and for light manufactured good exports; and
- Completion of written promotional materials (guidebooks, brochures, etc.) to support both general and sector-specific marketing.

As noted above, as a specific performance indicator, USIPO will establish a long-term financial plan which incorporates to the maximum extent practical activities that generate revenues and cover costs (see Annex D, Institutional Analysis). The nature of USIPO's program is, of necessity, high risk and one requiring supplementary external contributions, e.g., either official foreign development assistance or private donations. Experience with other AID-financed projects indicates that excessive attention to the objective of self-sustainability could undermine project efforts to assist those high growth potential export sectors that are currently in most need of assistance.³

3. Project Activities

a. General

The proposed 5-year project will be authorized at a \$10 million life-of-project funding level with funding allocated to support two phases. Section II.B.6 of the Project Paper specifies a series of operational and quantitative targets that will serve as a basis for determining whether or not to proceed to the second phase. The first phase will require a budget of approximately \$6.7 million and will last three years. Based on an assessment of the implementation progress in year three of the project, the remaining funds would be made available to fund the last two years. It is expected that approximately \$2 million will be obligated in FY 91.

b. Organizational Approach

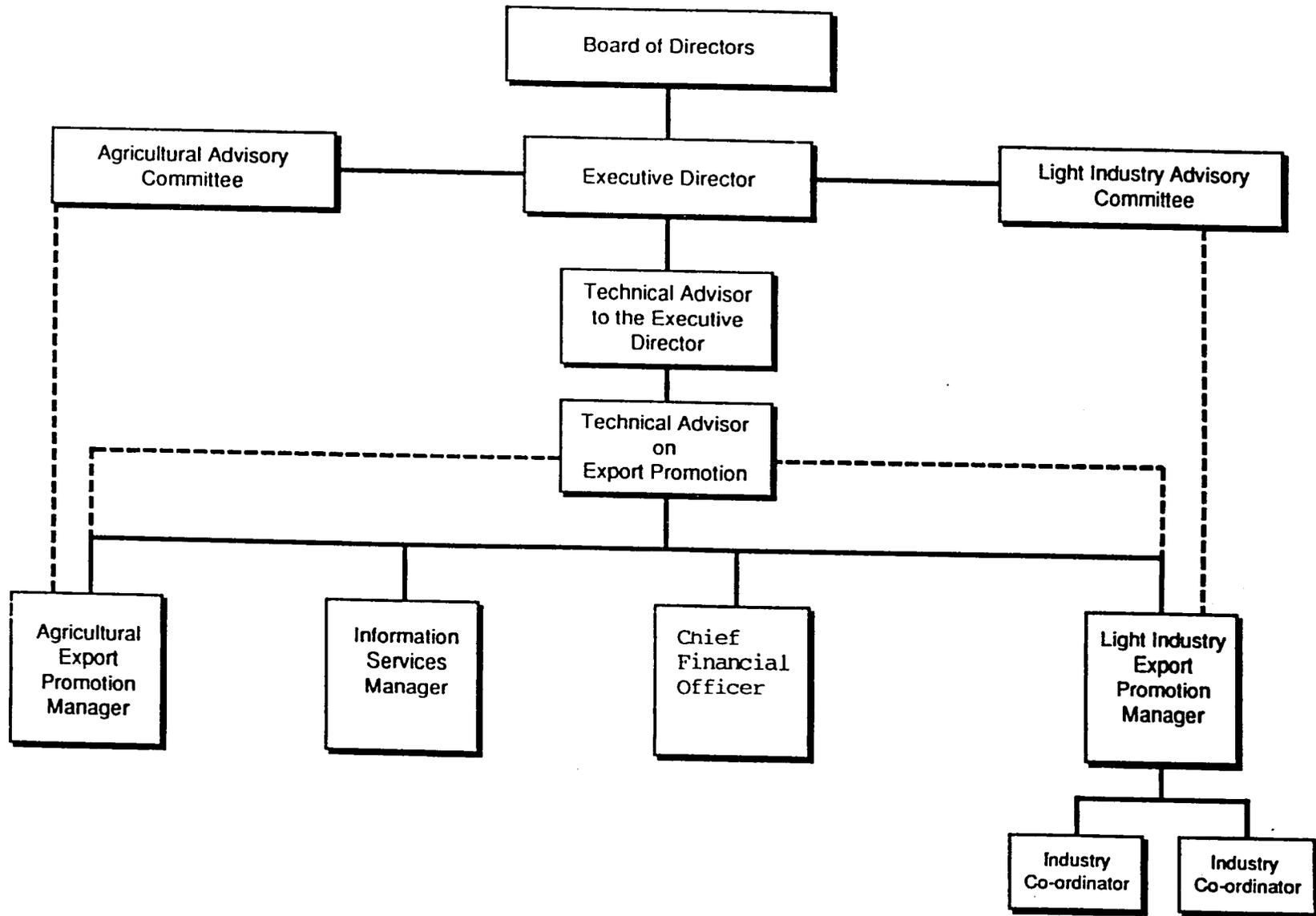
The proposed project will effectively build on USIPO's positive experience with its early export promotion initiatives. USIPO will provide the basic institutional structure on which the project implementing mechanism will be formed. USIPO was established in 1981 with USAID funding under a grant with the Egypt-U.S. Joint Business Council (JBC), the implementing agency. The JBC was created by Ministerial Decree No. 281 of September 11, 1978. The JBC is an unregistered private and voluntary organization composed of private Egyptian and American businesses.

USIPO's mandate, agreed upon by the GOE, is to carry out activities intended to: (i) Promote and facilitate U.S. investment in Egypt; and (ii) identify markets, promote Egyptian exports and enable exporters to compete successfully in international markets. USIPO is the only non-government organization with significant experience in promoting exports and foreign investment in Egypt. As indicated in its October 1990 evaluation, USIPO has gained valuable experience (e.g., in marketing, assisting on regulatory requirements, etc.) related to investment promotion, and since 1988 has been focusing increasing resources on promoting exports with measurable success.

As discussed in more detail in Annex D, under the proposed project, USIPO will undertake a number of structural changes to reflect the nature of this project and accommodate recommendations made in USIPO's recent evaluation.

- o The name of the organization will be changed to fit the new focus on export promotion;
- o A new seven-member Board of Directors will be established (USAID will be a non-voting member), and a three-person Executive Committee will be formed;
- o Two Advisory Committees, one each for agriculture and light industry, will be created formally to guide project activities in their respective sectors; and
- o The Executive Director will be assisted by two Technical Advisors.

PROPOSED ORGANIZATIONAL STRUCTURE



USAID will enter into a bilateral grant with the Ministry of International Cooperation (MIC) which will provide for USAID to enter into a direct grant agreement with the implementing agency, the JBC, under a similar arrangement as is currently in place to provide assistance to USIPO.

A proposed structure for the "reorganized" USIPO is shown on the previous page. The objectives sought from this structure are to develop a "lean" but effective promotional organization, and to target and tightly control activities in focused industry areas. Both of these goals are consistent with lessons learned in similar USAID-funded promotion activities.

c. Project Components

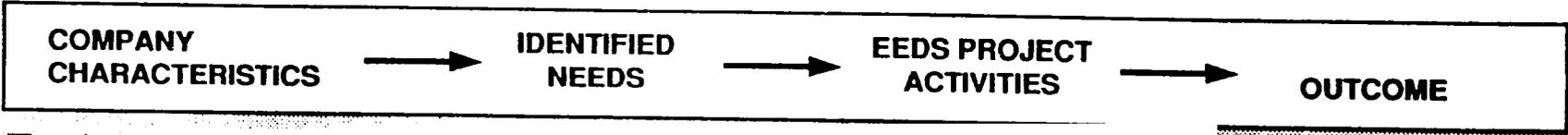
The proposed project will have two components: Proactive export promotion and information services development. These components are shown schematically in the chart on the following page.

"Proactive" Export Promotion

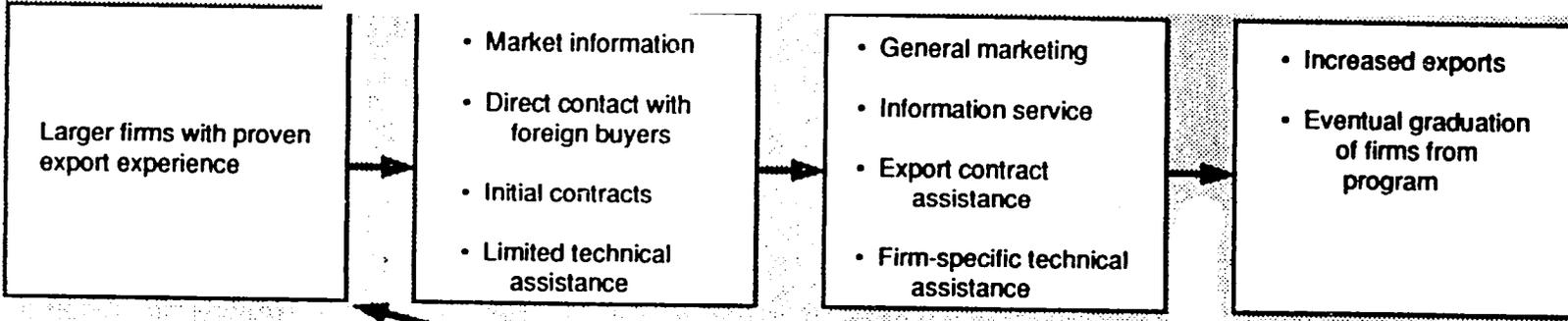
The proposed project will build on and expand USIPO's current export promotion focus, with emphasis on exports in light manufacturing and fruits and vegetables to markets in Europe and the Middle East. Consistent with AID experience in Latin America,⁴ the proposed project will follow a promoter approach with a high degree of targeting of assistance to a selected group of high potential firms in specific areas of export development. Based on external and internal analyses,⁵ it was decided to focus the project on building Egypt's capacity to increase exports to Europe and the Middle East in primarily two sectors: (1) Light manufacturing, and (2) fruits (excluding citrus) and vegetables.

Export potential exists in these two areas due to Egypt's low labor costs and its year-round growing season. In addition, there is a growing interest within certain Egyptian companies, some of which possess under-utilized capacity and a capability to produce quality products, to manufacture or cultivate for export markets. The specification of agricultural export activities was greatly assisted by the recently completed analysis prepared by Agricultural Cooperative Development International (ACDI) and the National Cooperative Business Association (NCBA).⁶ A detailed analysis of the light manufacturing and agricultural sectors carried out during the preparation of the Project Paper (see Annex C) indicates that the following specific product lines have significant near-medium term export potential.

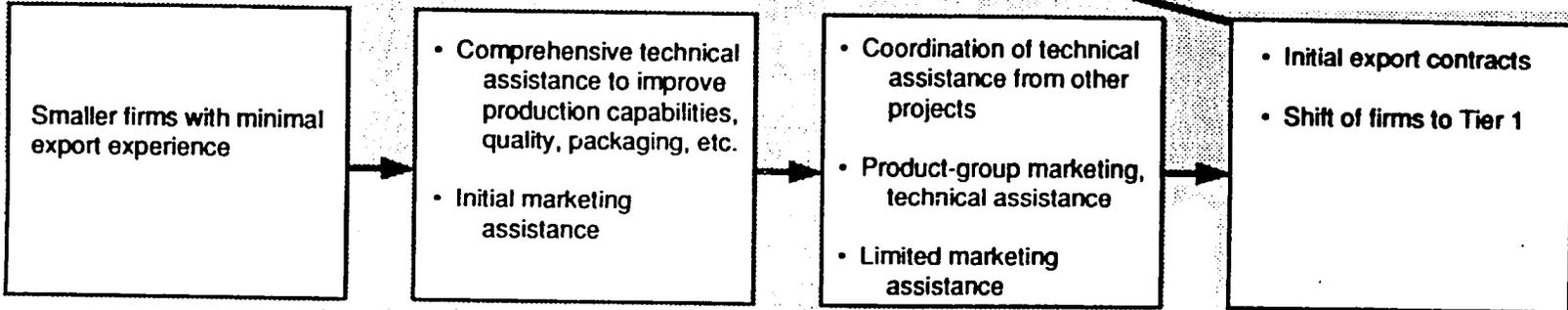
THE EEDS PROJECT DIFFERENTIATES BETWEEN THE NEEDS OF TWO SETS OF EXPORT COMPANIES



Tier 1



Tier 2



Export Enterprise Development Project: Product Focus

Fruits and
Vegetables

Bulk Ocean Freight

1. Potatoes
2. Onions
3. Garlic

Air Freight

4. Fine Green Beans
5. Strawberries
6. Specialty Tomatoes
7. Miniature Vegetables

Containerized Ocean Freight

8. Artichokes
9. Cucumbers
10. Melons
11. Orchard Crops (grapes, peaches,
and pears)
(Tomatoes)
(Green Beans)

Light
Manufactures

1. Garments*
2. Housewares*
3. Leather Goods*
4. Carpets
5. Furniture
6. Processed Foods

* Areas of initial concentration

The project will concentrate on helping Egyptian exporters in relatively non-complex market entry areas, such as assembled products and fruits and vegetables. Egyptian exporters of these products have already achieved initial success in developing overseas markets. Once Egypt has established a reputation for producing good quality products on a reliable basis, consideration could be given to building Egypt's export capacity involving more sophisticated products.

The project will focus on firm-level constraints and indirectly on the poor reputation of Egyptian products and exporters. Firms interviewed during the design of the project estimated that with assistance in these areas they would be able to increase export values by between 20 and 100 percent, even without investments in new production facilities. Increased sales would come from higher prices for products due to improved quality, and from higher volumes and market shares due to efficiency gains and shifts of production to those products for which demand is greater.

For each firm, however, all of the firm-level constraints must be addressed. Without improving production efficiency and quality control a particular firm will not be able to compete effectively. Without export marketing and information assistance a firm will not be able to conduct transactions or meet the specific market demands.

Even within each industry, the needs of firms of similar size or producing similar products vary sharply. For example, among executives of four relatively large producers of garments interviewed during the analysis of the project design about the types of export promotion services they needed most, one mentioned market information on fashion trends and prices, a second noted increased contacts with buyers, a third cited training for production workers, and the fourth requested training on how to cost and price garment products to be offered to managers.

Accordingly, the project will work within a two-tier program. The two-tiered program is based on the industry structure of the product areas with the greatest export potential. The key characteristics of this bifurcated approach are described on the following diagram. The process begins by differentiating between two classes of firms, then identifies needs, and subsequently carries out project activities to meet those needs to reach desired outcomes.

The proposed USAID project will finance assistance to support firms within the first tier. Some assistance for the second tier firms will be provided under the project (particularly in the fruits and vegetables sector), but most will be funded by other USAID projects or activities funded by other donors (e.g., the proposed EC project).

-- The first tier includes a limited number of firms which are larger in size (e.g., have at least 100 employees -- see Annex C), use relatively modern production facilities and possess previous experience in exporting. Some of these companies have agreements with foreign equipment suppliers or with their buyers to provide expertise on production efficiency and quality control. These firms can most effectively utilize export brokering and market information services, as they are generally capable of meeting international quality standards. Many, however, still need technical assistance to improve their production efficiency, and need training for production and middle management personnel. By international standards, production efficiency and management and export marketing skills are still weak.

USIPO INTERVENTIONS FOR EXPORT PROMOTION

- Through business contacts and consultants in Europe and the Middle East ...
- Through responses from promotional materials ...
- Through exhibitions and seminars attended by USIPO staff or exporters ...
- Through buyers' missions to Egypt ...
- Through USIPO staff assistance after taking product samples to buyers or importers ...
- Through exhibitions or other organized trips for Egyptian exporters ...
- Account executives collect data on all exporters for USIPO data bank ...
- Exporters are classified according to need and experience ...
- Technical assistance is arranged so that exporters meet international standards ...



● USIPO identifies foreign buyers and develops marketing and regulatory information.



● USIPO helps foreign buyers meet and negotiate with Egyptian exporters.



● USIPO identifies and assists exporters in Egypt.

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COMPONENTS OF EXPORT ENTERPRISE DEVELOPMENT PROJECT



(1) PROACTIVE EXPORT PROMOTION

INSTITUTIONAL DEVELOPMENT	EXPORT MARKET DEVELOPMENT & PROMOTION	EXPORTER IDENTIFICATION AND ASSISTANCE	SECTOR-SPECIFIC PROMOTION & ASSISTANCE
<ul style="list-style-type: none"> • TRAIN STAFF • IMPLEMENT LEAD TRACKING SYSTEM • PREPARE FINANCIAL STRATEGY • TEST BUSINESS NETWORKS 	<ul style="list-style-type: none"> • IDENTIFY MARKET OPPORTUNITIES • ATTEND TRADE SHOWS • SCREEN BUYERS • CONDUCT SEMINARS • ARRANGE BUYER VISITS 	<ul style="list-style-type: none"> • IDENTIFY AND SCREEN EGYPTIAN EXPORTERS • IDENTIFY AND PROVIDE T.A. • ASSIST ON SAMPLES AND TRIAL ORDERS 	<ul style="list-style-type: none"> • DEVELOP SECTOR STRATEGIES • ARRANGE GROUP T.A. • ASSIST ON QUALITY CONTROL • PREPARE SOLUTIONS TO SECTORAL CONSTRAINTS

(2) INFORMATION SERVICES DEVELOPMENT

- PREPARE AND DISSEMINATE PROMOTIONAL MATERIALS
- DEVELOP INFORMATION DATABASE
- IMPLEMENT REFERRAL SYSTEM

-- The second tier includes a much larger number of smaller companies with some but limited export experience. These companies use less modern methods and have great difficulty in attaining international quality control standards. Most of these firms will need production based T.A. in order to achieve a minimum consistent standard quality, so that their goods can be promoted without continuing to damage Egypt's reputation. With T.A. a substantial portion of the more motivated firms in this level could achieve production efficiency and quality standards, and then become strong clients for USIPO's market information and brokering services.

The two-tier strategy involves the following approach. The majority of project-funded marketing assistance and firm-level technical assistance will be directed toward Tier 1 firms. The purpose is to work with "export ready" companies to generate near-term gains in exports. A limited amount of project resources will also be allocated to finance direct assistance to Tier 2 farmer producers in the following illustrative areas: strengthening importer-exporter market linkages; improving production technologies and crop varieties; developing lower cost transportation alternatives; and improving post-harvest handling. In addition, certain forms of assistance such as group seminars on marketing and quality control will be available for participation by both Tier 1 and Tier 2 firms. USIPO will also coordinate firm-level assistance to Tier 2 firms financed from other projects and programs such as IESC and EC activities.

Tier 2 firms will also benefit from industry level assistance under the project. Tier 1 companies will provide technical assistance to Tier 2 firms. In the agriculture area, for example, TA will be provided to develop collaborative supplier relationships between larger Tier 1 firms and smaller Tier 2 firms. Exporting companies can arrange for purchases of agricultural output from smaller producers to achieve larger quantities and reduced marginal transportation costs. This in turn will require the provision of certain technical services from Tier 1 to Tier 2 companies (e.g., assistance to assure quality control, the use of appropriate seed varieties, necessary handling and packing techniques, etc.). This form of "backward linkage" approach has been applied successfully in many countries, with "lead" firms establishing associated relationships with smaller producers to the mutual benefit of both firms.

In the light industry sector, the project will also seek viable forms of backward linkages to provide supplier opportunities for Tier 2 companies. These might include subcontractor arrangements for the provision of components, packaging and other inputs or even final goods in certain categories. The development of supplier relationships is a

normal economic phenomenon in all successful exporting countries such as Taiwan and South Korea. Short-term TA will be used to explore specific opportunities for subcontracting and supplier arrangements. In addition, project-sponsored initiatives to overcome non-firm specific constraints such as transportation bottlenecks will benefit Tier 1 and Tier 2 firms alike.

During Phase II of the project, USIPO will implement an expanded program to engage Tier 2 companies in its activities. To assist in the development of such initiatives, USIPO's management information system will include information on Tier 2 firms assisted directly by USIPO and also by Tier 1 companies through marketing and technical assistance and backward linkages. Phase II funding of USIPO will be conditioned by the preparation of an acceptable plan to assist Tier 2 firms during Phase II.

Under the "Proactive" Export Promotion component, USIPO will continue to carry out promotional activities, but targeted project resources will be devoted to enhancing USIPO's institutional capabilities. Project financed consultants will give particular emphasis to strengthening USIPO's capacity and effectiveness in carrying out hands on, "proactive" export promotion initiatives. These include identifying high potential markets and market requirements, finding foreign buyers, matching up buyers with Egyptian producers, and continually following up to ensure that misunderstandings are resolved quickly, constraints faced by either party are reduced or eliminated, and the transactions finally materialize. The following subcomponent activities are envisioned.

Institutional development. Technical experts will be contracted to assist USIPO to improve its organizational management, train staff, and develop and implement a coherent strategic plan. An important part of this plan will be a detailed marketing strategy for increasing Egyptian exports. Project financed TA will allow USIPO to benefit from the considerable advances made in "proactive" promotion techniques made over the past five years (e.g., targeting, lead management, etc.), thereby overcoming a gap identified in USIPO's current structure. All USIPO professional staff will require training, probably short courses conducted in Egypt and the United States (see Annex D, Institutional Analysis, which includes a detailed USIPO training program).

Export market identification and promotion. Locating foreign markets and buyers is a critical step in the "proactive" promotion process and will require special attention under the project. Egyptian exporters do not have adequate functional links to European markets nor the capability to fill orders when they do make contact.⁷ USIPO will engage in a series of proven promotional techniques such as attending trade shows, conducting seminars, and soliciting potential buyers directly. In addition,

given the significant but currently under-exploited export potential in European markets, the project will support the use of contracted agents in Europe, as is currently being done by USIPO, and will also support the following complementary marketing options: Developing collaborative linkages with overseas business organizations (e.g., German-Arab Chamber of Commerce) and with EC government agencies, sponsoring or participating in special selling/buying missions, arranging joint distribution of samples, etc.

Once potential foreign buyers have been identified, USIPO will assist buyers by arranging meetings with Egyptian exporters. Foreign buyers will meet selected local producers, visit their production facilities and negotiate initial sales agreements or trial orders. Using a project-financed lead management system, USIPO export promoters (individuals assigned to conduct promotion and provide assistance in specific sectors) will follow up on possible transactions, make appointments, provide needed local information, and accompany the business representatives throughout the period of the visit. The ultimate goal is to ensure that potential buyer interest is maintained and sales are made.

Exporter identification and assistance. An important step in the export promotion process will be for USIPO to identify Egyptian companies seeking assistance in finding new markets and buyers. USIPO has already prepared lists of candidate Tier 1 firms in several industries. USIPO staff will place firms in either Tier 1 or Tier 2 in order to determine appropriate forms of assistance to individual companies. USIPO's "clients" for direct marketing assistance will pay success fees if USIPO is successful in finding buyers. Currently, USIPO is charging between 3-5 percent of the value of Letters of Credit for export sales.

Under the proposed project, USIPO export promoters will provide guidance to Egyptian producers on identifying the steps needed to improve product quality, packaging, shipping, etc. In addition, guidance will be provided to the private sector in identifying administrative and micro level constraints to expanding exports. When appropriate, the promoters will help Egyptian producers locate needed technical assistance services in these areas, drawing from IESC volunteers and local and foreign firms. It is anticipated that as much as possible, this assistance will be provided by local private firms and therefore will encourage the use of local private consulting services.⁸ The project will provide funds to cover a portion (up to one half) of these TA costs, with the client paying the rest. During the project it is anticipated that the AID contribution for this TA would be supplemented by USIPO resources obtained through the fees collected by USIPO clients.

Sector-specific promotion and assistance. Consistent with the experience of similar AID projects, which indicate the need for sectoral focus, USIPO will organize its export promotion and assistance activities around two sectoral clusters: (1) Light manufacturing and (2) fruits and vegetables. USIPO is currently forming advisory groups in these two sectors as a mechanism for mobilizing and organizing domestic suppliers for export transactions. The proposed project will build upon these USIPO efforts and could provide technical assistance to facilitate sectoral marketing and identify needed forms of exporter assistance. The latter might include such areas as quality control, packaging, joint transportation facilities, and so forth. The proposed project would offer a limited amount of technical assistance in these areas at the product group level, and would help identify additional resources when required.

Information Services Development

Filling a clearly identified need, the proposed project will provide financial and technical resources to assist USIPO to prepare highly professional promotional materials and to develop and disseminate information on commercial conditions and opportunities to targeted business audiences. Promotional materials would include a guide summarizing the overall export and investment climate (including constraints) and opportunities in Egypt, targeted industry brochures, and materials describing services available from existing programs and agencies (e.g., EC funded programs, business association activities, U.S. & FCS, FAS, CIP, etc.). USIPO would collaborate with these organizations in the preparation of promotional materials.

To respond adequately to requests for information from potential Egyptian and foreign business partners, USIPO will develop and maintain an information base. Included in the database will be detailed information on Egyptian companies and potential partners in target sectors, data on local and foreign markets (e.g., input and product prices, transportation facilities, legal requirements, etc.), and sources of technical assistance, credit or financing and marketing support. The database will also include a lead management system which tracks the status and result of each new contact and lead made by USIPO. As previously mentioned, the MIS will also include information on Tier 2 firms assisted through project activities and through Tier 1 backward linkages.

The information will be collected and entered by a USIPO information specialist together with account executives and project-funded consultants. To facilitate negotiations and in-country work, USIPO will provide buyers, sellers and prospective joint venture partners access to USIPO's database, office space and communications facilities.

Institutional Roles and Responsibilities

The chart on the following page shows the distribution of functional responsibilities under the project. The proposed strategy reflects the intention to shape export and investment promotion in Egypt as a cooperative, joint effort among projects and programs, and to leverage resources from different sources.

In the proposed approach, USIPO will play a role in all aspects of promotion, but will take the lead in developing information, administering technical assistance to Tier 1 firms, conducting general marketing and administering the investment feasibility study program. The proposed European Community project will participate in the effort by carrying out general marketing and by providing transaction and technical assistance to firms. Similarly, other projects will be engaged in the provision of transaction and technical assistance. Additional sources of technical assistance will be the International Executive Service Corps (IESC), the German-Arab Chamber of Commerce, the German aid agency (DTZ) and local and foreign contractors to USIPO. USIPO will explore linkages to U.S. business networks to offer promotion assistance.

EEDS: EXPORT DEVELOPMENT ROLES AND RESPONSIBILITIES

FUNCTION	EEDS CORE ORGANIZATION (USIPO)	COLLABORATING PROGRAMS AND INSTITUTIONS
- INFORMATION	<ul style="list-style-type: none"> • Foreign market information • Egyptian conditions and capabilities information • Export firm rosters 	
GENERAL MARKETING	<ul style="list-style-type: none"> • Promotional materials • Trade shows • Seminars/missions • Advertising 	<ul style="list-style-type: none"> • <u>EC Program</u>: Marketing assistance in Europe.
TRANSACTION ASSISTANCE	<ul style="list-style-type: none"> • Export contract assistance 	<ul style="list-style-type: none"> • <u>EC Program</u>: Export contracts on sales to Europe.
TECHNICAL ASSISTANCE	<ul style="list-style-type: none"> • Product group courses and seminars • Funding of short-term consultants 	<ul style="list-style-type: none"> • <u>EC Program</u>: Assistance to light industry firms. • <u>IESC</u>: VE program assistance • <u>German-Arab Chamber of Commerce</u>: Management training and firm-level assistance. • <u>DTZ (German AID Agency)</u>: Firm level assistance.

4. Project Inputs

The following inputs will be required under the project to ensure that project goals and objectives are met:

- One long-term expatriate advisor with extensive experience in organizing and managing an export and investment promotion unit, for three years;
- One long-term expatriate advisor with a strong background in export promotion techniques, for two years;
- Short-term consultant assistance available to USIPO throughout the LOP;
- A USIPO office and staff of seven professionals for five years;
- Eighteen person-months of training for USIPO professional staff (overseas courses, local courses and seminars, and on-the--job);
- Computer hardware, software, training and technical assistance to maintain management information systems (MIS) within USIPO;
- Adequate funds for travel of USIPO staff and the long-term export advisor to conduct marketing activities.
- Participation in 12-15 trade shows per year and 5-6 trade and investment seminars per year administered by USIPO;
- Fifty-three person months of contracted firm-level technical assistance provided to Egyptian export firms; and

5. Project Outputs

The proposed project has been designed to produce the following outputs:

- An effective private sector mechanism for carrying out proactive export promotion, information services development and export enterprise assistance;
- A series of productive export promotion activities (trade shows, seminars, direct marketing, etc.);
- An increase in the number of private Egyptian firms participating in export activities;
- An increase in the value of Egyptian private sector exports; and

6. Indicators of Performance

Indicators demonstrating the project's performance include the following:

- An increase of \$75 million in private sector exports from target sectors;
- Approximately 100 Egyptian exporting firms will be provided marketing and/or technical assistance;
- An increase in the number of products and/or volume of exports to European and Middle Eastern markets;
- Participation in 67 trade shows and administration of 25 trade and investment seminars; and

Phase 1 targets. USIPO will begin to conduct promotion and technical assistance activities upon project initiation. However, during the first three-year phase considerable attention will be devoted to strengthening the organizational capacity of USIPO, and to preparing and implementing sectoral promotion strategies. Continuation of the project and USAID funding of the second two-year phase will be contingent on the successful accomplishment of the following:

- Material progress toward achieving the export expansion target, with project assisted firms increasing exports by at least \$40 million;
- At least 80 Egyptian exporting firms will be provided marketing and/or technical assistance through year three of the project;
- Preparation and implementation of a detailed organizational strategy, including a long-term financial plan for USIPO;
- Design and execution of staff training for all USIPO professionals;
- Establishment of effective management information systems (MIS) for export/investment lead management, activity evaluation and information dissemination;
- Completion of a specific plan to provide marketing and technical assistance to Tier 2 firms by USIPO and Tier 1 firms;
- Preparation and initiation of sectoral promotion strategies for fruit/vegetable and for light manufactured good exports; and
- Completion of written promotional materials (guidebooks, brochures, etc.) to support both general and sector-specific marketing.

7. End of Project Status

The project and its activities will lead to the following End of Project Status (EOPS):

- Private sector exports will have increased \$75 million from firms directly assisted by the project;
- At least 100 Egyptian export firms will have been provided marketing and/or technical assistance under the project;
- The number of products and/or volume of exports to European and Middle Eastern markets will have increased for at least 10 fruit/vegetable products and 5 light manufacturing products;
- A private sector mechanism for promoting Egyptian exports will be in place;

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III. SUMMARY OF ANALYSES

A. Technical Analysis

The technical analysis (Annex C) addresses two issues examined by the project design team: A target industry analysis, and the nature of constraints facing producers of nontraditional export commodities. This section summarizes the findings of the analysis.

Target Market Analysis

Although starting from a narrow base, Egypt possesses considerable potential for expanding nontraditional exports. The nation's sales of these exports grew from \$523 million in 1985 to \$1.2 billion in 1989, expanding at an average annual rate of 22.5 percent. The share of private sector exports in this category rose from 8 percent to 34 percent of total nontraditional manufactured-good exports over this period.

The economic climate for private sector exports from Egypt has improved considerably in recent years, most importantly due to reforms in commercial policies but also to considerable advances in the country's infrastructure. With these changes, especially those made in economic policy, a proactive export promotion project now has a high probability of success. A similar project would not have been viable several years ago. Now, however, as many of the most important barriers to private firms ability to compete in international markets have been lowered significantly, firms will be able to take advantage of the services provided by an export promotion project.

In order for proactive export promotion to be successful, its activities must be targeted to a relatively narrow set of products or sectors. Resources available for export promotion are limited, and if they are to be effectively used, they should be applied selectively to those areas which show the greatest promise.

Egypt clearly has potential for rapid growth of private sector exports in two broad product areas: fresh fruits and vegetables, and light manufactured goods. This potential is due to a host of economic, climatic, geographic and political factors, and has been demonstrated by the growth of private sector exports in these areas. The variables that lead to this conclusion are the same factors that collectively determine Egypt's export potential and comparative advantages. They include:

- o An improved commercial policy climate;
- o A large supply of low cost Egyptian labor;
- o Strong agricultural resources;
- o Geographic proximity to the large EC and Middle Eastern markets;
- o Preferential market access to the EC and Middle Eastern markets;
- o Improved infrastructure; and
- o Adequate internal private sector financial resources;

Countries in the European Community and in the Middle East are the most promising markets for Egyptian exports for several reasons. As described above, Egypt enjoys preferential market access to both regions, and geographic proximity lowers transportation costs. In addition, except for Eastern Europe and the USSR, Egypt has already established its greatest commercial links with these markets, and therefore a focus on the EC and Middle East would build on Egypt's strengths.

In response to the improving economic environment for private sector exports in Egypt, both light manufactured and fresh fruits and vegetable exports to the Middle East and Western European markets have grown sharply, albeit from insignificant levels. Between the fiscal years of 1986/87 and 1989/90, light manufactured exports to these two markets grew by an annualized average of over 80 percent, and totalled \$128 million by 1989/90, compared to only 20.8 million in 1986/87. Fresh fruits and vegetable exports also grew rapidly during this period, although starting from a very low base.

Potential Light Manufactured Export Products: Although the rate of growth of exports from this sector has been rapid, there are only a limited number of products or sub-sectors which have reached significant levels of exports. Only six light manufacturing industries have exports exceeding \$1 million to Western Europe and only seven to the Middle East. These industries include:

- Garments
- Leather products
- Carpets
- Furniture
- Ceramics
- Glassware
- Footwear
- Prepared foods

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Potential Fresh Fruit and Vegetable Exports: Egypt's current strengths lie in the production of potatoes, onions, tomatoes and green beans. According to a study conducted jointly by ACDI and NCBA, it was concluded that Egypt has the capability to increase exports of these crops substantially, and Egypt also has the ability to export additional varieties of fresh fruits and vegetables, such as strawberries, miniature vegetables and orchard crops.

The ACDI/NCBA team identified three major areas for potential export growth, characterized according to different transportation systems. They include:

-- Bulk Ocean Freight/Low Perishable Commodities: Potatoes, onions and garlic. (Estimated Potential Increase: 65,000 tons).

-- Air Freight/High Value Commodities: Fine green beans, strawberries, specialty tomatoes and other specialty vegetables. (Estimated Potential Increase: 5000 tons).

-- Containerized Ocean Freight/High Volume: Green beans, artichokes, tomatoes, cucumbers, melons, and eventually orchard crops. (Estimated Potential Increase: 10,000 tons).

Constraint Analysis

The technical analysis identified three levels of constraints facing Egyptian exporters:

- o Policy and environmental constraints;
- o Infrastructure constraints; and
- o Firm-level constraints.

Traditionally, policy-related impediments represented the most serious constraint to export growth, but policies have improved considerably. In terms of infrastructure, lack of adequate transportation, particularly air freight, at reasonable costs is considered to be a serious constraint to exports of fresh fruit and vegetables. On air freight, the general problem is due to lack of volume and relative lack of backhaul opportunities, which raises costs. Nevertheless, current Egyptian exporters of fruit and vegetables have negotiated successful contracts with air transport firms or have acquired their own aircraft. Therefore, for the volumes of exports envisioned under this project, transportation is a constraint but is not a binding constraint. Over time, as in other countries which successfully export fresh produce (e.g., Israel, Chile,

etc.), increasing volumes will yield better service at lower costs. In the area of transport, particularly air transport, supply adjusts relatively rapidly to changes in demand.

With regard to firm-level constraints, the analysis found that among the potential target industry, firms tend to fall into one of three categories:

- o On the top are a limited number of "export-ready" firms which are larger (some with 100 or more employees), use relatively modern production facilities and have significant export experience.
- o The second tier includes a much larger number of smaller companies with limited export experience. These firms tend to use less modern production methods and have great difficulty in consistently meeting international quality standards. Without assistance to overcome production and quality control problems, these firms cannot effectively utilize export marketing assistance or information.
- o The third tier of private firms include small workshops operating at low-levels of production efficiency and either low or highly inconsistent quality. The firm-level export constraints for firms at this level are extremely high, and therefore these companies are not appropriate targets for proactive export promotion.

All of the major constraints identified above relate to "supply side" constraints present in Egypt. A number of additional constraints have been identified at the "demand side" of the equation -- problems associated with market access. Agricultural exports to Europe encounter certain trade barriers, such as seasonal restrictions during EC producers' harvest time, and possible health and sanitary restrictions. In addition, while Egypt currently is not subject to fixed quotas on garments through the Multifiber Arrangement, such quotas could be set in the future. The design team has concluded that none of these market access constraints is "binding," but that USIPO should monitor market access opportunities and threats on an ongoing basis.

Project Resources to Address Constraints

The technical analysis concluded that the project should focus primarily on firm-level constraints, given that policy constraints to increased exports will be addressed in other Mission initiatives, and because the existing policy environment will not severely limit the effectiveness of proactive export promotion.

First Tier Program: Initial Focus on "Export Ready" Firms and Information Services: Given the limited resources available under this project, the limited Egyptian experience in export promotion activities and the focus on rapidly increasing exports, it is recommended that the project focus its marketing and technical assistance services to the needs of the "export ready" firms.

Second Tier Program: Technical Assistance Focus: In order to broaden the scope of industries and firms engaged in successful exporting, a second level of proactive export promotion activities focusing on technical assistance is recommended. This program would provide firm-specific intensive technical assistance, helping the firm through all aspects of the export process, from production and quality control to the development of an export marketing strategy to the negotiation of an export contract. A limited amount of project resources will be allocated to finance direct assistance to Tier 2 farmer producers in the following illustrative areas: strengthening importer-exporter market linkages; improving production technologies and crop varieties; developing lower cost transportation alternatives; and improving post-harvest handling. In addition, some project assistance will be provided to support activities such as group seminars, training and marketing, but the majority of this assistance will be funded by other USAID and other donor projects. With this assistance, it is expected that these second tier firms could become successful exporters, and progressively important participants in the first stage program. During Phase II, USAID and USIPO will consider supporting a technical assistance program targeted for Tier 2 firms.

B. Institutional Analysis

To support the design of the Export Enterprise Development Project, an institutional analysis was conducted to reach determinations on (1) the most appropriate organization to implement the project, and (2) the institutional requirements of the organization selected.

Choice of Implementing Institution

Only three organizations in Egypt have experience in export promotion: The Egypt Export Development Center (EEDC), a government institution staffed by career civil servants; the Export Development Bank of Egypt (EDBE), a bank specializing in export finance which provides a limited range of other export promotion services; and USIPO. The Federation of Egyptian Industry also serves as the host institution for an export promotion program operated by the German-Arab Chamber of Commerce. However, the Federation has a limited role in the

implementation of the program, and therefore has really no substantive experience in export promotion.

Apart from selecting one of these institutions with experience to be the implementing agency of the project, two other alternatives were explored. One option would be to develop an export promotion capability within an existing institution, and another would be to establish an entirely new institution.

Regarding the first option of using an existing but "inexperienced" institution, the alternatives considered were the public General Authority for Free Zones and Investment (GAFI) and a range of private business associations such as the Egyptian Businessmen's Association and the U.S.-Egypt Chamber of Commerce. This option was rejected (see Annex D, Institutional Analysis).

The alternative to establish a new institution was also considered and rejected. Experience indicates that implementing programs through already existing, credible organizations is a more effective and efficient way to achieve promotional results. Similar "new start" initiatives in other countries suffered long delays associated with institution building. Moreover, the project's objective of rapidly assisting private sector exporters suggests that the establishment of a new institution is not a viable option.

Given the institutional environment and experience of establishing new trade and investment institutions in other countries, the first choice is to utilize an organization with experience in export promotion. Of these, USIPO was found to be the most appropriate. Nevertheless, USIPO will have to be strengthened significantly to become an effective export promotion institution. The other institutions with export promotion experience were all found to be inappropriate for implementing the project. The EEDC has not been effective. It is a relatively large and bureaucratic organization staffed by civil servants, few of whom have a professional understanding of export promotion or experience in the private sector. In interviews with Egyptian business executives, the EEDC was almost universally described as ineffective.

Through its extensive contact with exporters, the EDBE has excellent knowledge of Egypt's export capabilities and weaknesses. Nevertheless, it would not be an appropriate institution to implement the range of export promotion services required by this project. Most importantly, the EDBE's priority is banking, not providing other services to exporters. Secondly, the EDBE has no experience in the management or organization of technical assistance. Finally, as the EDBE competes with other banks in providing export financing services, it is likely that it would tend to direct its promotional

services toward its clients, rather than toward exporters that are not clients.

There are a number of reasons for selecting USIPO to implement the project. USIPO is a small, private sector directed organization. Experience from other developing countries has shown that this type of institution tends to be the most effective for export and investment promotion. USIPO has over time gained practical experience in export promotion activities, and has learned how to manage AID funds effectively. USIPO staff have good foreign language skills, and the staff all have backgrounds in the private sector. Senior management has extensive private sector marketing experience.

USIPO Needs Assessment

As pointed out in the November 1990 Evaluation completed by SRI, prior to 1989 USIPO's weak performance can in large part be blamed on a very poor policy environment that was beyond its control. In addition, USIPO was hindered by a series of institutional shortcomings such as inappropriately experienced or motivated personnel, internal staff rivalries and personality clashes and an overall inadequate capacity to plan, manage and carry out effective promotion programs.

Since 1989 USIPO has shifted its overall focus, goals and implementation strategy from investment promotion to export promotion. Furthermore project management and oversight have improved markedly. In addition, new key personnel were recruited and the existing USIPO staff was restructured. A new Executive Director with previous business experience and an active promotion orientation was appointed. An export promotion director with significant marketing experience was also hired as well as two young but highly motivated export promotion specialists.

As stated in the November 1990 SRI Evaluation Report, early indications suggest that USIPO's export promotion activities have been relatively well planned and executed and are likely to continue. Nonetheless, USIPO's capacity is still seriously weak in the systematic planning of export promotion activities and the staff have limited knowledge about export promotion techniques. In addition, USIPO does not have an effective capacity to quickly access, analysis and disseminate much of the information that is essential to conduct effective export promotion, especially intelligence regarding foreign markets, accurate information of local production capabilities, and rapid tracking and following up on the large and growing number of export transactions. While the level of activity associated with USIPO's previous investment promotion mandate did not require a sophisticated MIS, such a system will be imperative to effectively support the new export promotion direction.

The proposed institutional development program is designed to effectively build on USIPO's existing core of capable professional staff and its improving performance and capacity during the past two years. The outside consultants will work with USIPO to design and install a planning and monitoring system for effectively managing a much larger export promotion program. The project financed consultants will design and carry out appropriate formal and informal training programs that effectively build on existing skills, without disrupting ongoing plans for export promotion activities and provide for a great deal of learning by actually carrying out export promotion activities by working along with the consultants. Furthermore the TA contractor will be required to furnish two long-term advisors that will work as integral members of USIPO's management and operational team to provide USIPO with efficient day-to-day "hands on" assistance in the planning and implementation of a significantly increased level of proactive export promotion activities.

The organizational requirements identified by the project design team fall into several categories, each of which is described in further detail in Annex D:

- o Management and oversight;
- o Professional skills;
- o Management information systems; and
- o Organizational structure;

The most important changes relate to USIPO's organizational structure. There is no need, however, to alter the legal status under the Egypt-U.S. Joint Business Council.

To ensure that the institution operates in a more systematic manner and responds to the needs of its clients, it is proposed that the Executive Director, who is responsible for the management and operations of the institution, report to the proposed seven-person Board of Directors and receive guidance from the Agricultural and Light Industry Advisory Committees. The Executive Director should present an annual work plan with clear performance objectives to the Board for its approval. A smaller, three-person Executive Committee of the Board should be formed and meet on a more regular, perhaps monthly basis, to oversee progress made towards fulfilling annual work plans. At least two of members of the Executive Committee should also sit on one of the sectoral Advisory Committees.

In addition, the Agricultural and Light Industry Advisory Committees which have been provisionally established should be

formally instituted. These committees would review annual work plans and strategies for each sector before the plans are presented to the Board of Directors, to ensure that the plans meet the needs of the sector.

Reflecting the different needs of the agricultural and light industry sectors and the central importance of information collection and dissemination in export promotion activities, it is recommended that the institution be organized into four functional units: One Agricultural Export Promotion unit, one Light Industry Export Promotion unit, an Information Services unit, and a Financial Management unit.

Proposed Training Plan for USIPO

The training plan proposed for USIPO includes training activities for the organization as a whole to learn effective export and investment promotion techniques, encourage team-building and achieve consensus on mission, goals, and activities (see Annex D for a more detailed discussion). The plan also contains individualized courses for staff members. In addition to the formal training recommended, the Technical Advisor on management and the Technical Advisor on Export Promotion will offer continual on-the-job training to management and staff.

The following skills were identified as playing an important role in determining the success of promotion organizations.

- o Skills Needed for Effective Management
- o Skills Needed for Effective Information Management
- o Skills Needed for Effective Export Promotion
 - Understanding the Product
 - Understanding the Markets
 - Understanding Local Suppliers
 - Tools of Export Promotion Marketing
 - Customer Service
- o Skills Needed for Effective Secretarial Support

In addition to group training, it is recommended that individual staff members should undertake training courses, either in Egypt or overseas. Specific training needs were identified for the Executive Director, the Export Promotion Managers, and the Financial/Investment Feasibility Study Manager.

The majority of staff training will fall under the responsibility of the technical assistance contractor to USIPO. However, to ensure that training commences on a timely basis, it is recommended that individual staff members of USIPO participate in export promotion courses currently offered.

C. Social Soundness Analysis

In focusing on increased private sector exports, the Export Enterprise Development Project enhances current efforts by the Egyptian Government to accelerate economic growth through open, export-oriented economies emphasizing value added production. A comparison of alternative models of economic development indicates that there is clear evidence that this approach yields the greatest gains in living standards.

The direct beneficiaries of the project will be the private firms and their employees who engage in export ventures. Export ready firms will be the initial primary beneficiaries, but other smaller firms will also benefit directly and indirectly through supplier/subcontractor arrangements and "backward linkages." Overall social conditions will be improved as a direct consequence of increased economic activity through export enterprises. For example, increases in export earnings lead to greater government revenues, which in turn can be used to finance the provision of public services. Higher foreign exchange income can be used to finance imports of goods and services needed to improve Egyptian living standards.

One of the greatest social dilemmas facing Egypt is unemployment and underemployment. Efforts to promote nontraditional exports will raise productive, sustained employment and household income. In a conservative estimate, the project is expected to generate 4,000 jobs directly (see Annex E).

Because the project focuses on agricultural industries, the project will have a favorable impact on rural areas, since productive employment opportunities will be increased in these areas. This in turn will reduce pressures for migration to urban areas, and hence decrease demands on social services in cities.

Services provided by USIPO will be demand driven and will be accessible to all individuals regardless of gender. Project benefits will accrue to women entrepreneurs as well as men. While the ratio of women to men entrepreneurs in Egypt is relatively low, women business executives do exist. USIPO will be instructed to place a high priority on assistance to women owned or operated firms. For example, USIPO will develop a list of women owned companies engaged in exporting and contact them in an effort to recruit women entrepreneurs to apply for and receive USIPO services. In addition, project monitoring systems will be designed to provide gender specific information for reporting purposes. A significant number of women are employed in export-oriented agriculture and light manufacturing. Productivity and wages in export industries are typically higher than those in industries serving domestic markets. Therefore, women and men

employees in project-assisted firms will receive greater training and earnings than their counterparts in domestic-oriented firms, and consequently higher standards of living and opportunities for advancement.

D. Economic/Financial Analysis

As indicated in the economic and financial analysis shown in Annex E, as well as the technical analysis provided in Annex C, the project will yield considerable economic benefits to Egypt. The development of export enterprises based on Egypt's true comparative advantages will increase national income, foreign exchange earnings, employment and government revenues. In addition, production geared for competition in international markets will improve the efficiency of Egyptian industry, both directly in firms assisted, and indirectly through spillover effects in domestic-oriented companies.

The most important "market failures" in Egypt have been caused by decades of inward-oriented, statist economic policies and attitudes. The failures have been the policies themselves and the almost complete elimination of the entrepreneurial class that operates according to market signals.

Considerable progress has been made in reforming the policy environment in recent years. The proposed project will take advantage of these changes, and will support the momentum for further required reforms, since the increase of exports will provide evidence that an export promotion policy strategy is preferable to an import substitution approach. In addition, the project will assist only private sector firms, rather than subsidized and relatively inefficient government enterprises.

As shown in Annex E, the project is estimated to yield directly an increase of \$78 million in exports from assisted firms. The project will also likely result in more than 4000 employment opportunities.

Cost/benefit analysis indicates a high return to AID's investment in the project if the GOE sticks to its economic reform program and if export promotion activities are carried out effectively. Assuming these conditions are met, the net present value of the project is expected to be \$3.4 million in 1992 dollars, and that the economic rate of return to the project should be in excess of 200 percent.

IV. IMPLEMENTATION PLAN

A. Management and Administrative Responsibilities

The responsibilities of each of the parties to the Project Agreement (PROAG) are described below.

1. Role of the GOE

The PROAG will be signed by USAID and the Ministry of International Cooperation. Among other things, the PROAG will include authority for USAID to issue a PIO/T and negotiate a Cooperative Agreement with the Egypt-U.S. Joint Business Council, USIPO's parent organization, under a similar arrangement as is currently in place, to provide assistance to USIPO to implement the project activities and to contract for needed commodities and technical assistance.

2. Role of USAID

The Mission's Office of Finance and Investment (TI/FI) will have primary USAID responsibility for monitoring the project. TI/FI's role will focus on coordination of USAID involvement with USIPO. With the assistance of various support offices, TI/FI will coordinate the application of USAID's functions at key planning points, particularly the review and approval of annual plans, quarterly progress reports and disbursement requests, and of scopes of work. TI/FI will work closely with USIPO in developing quarterly and annual implementation targets and in reviewing progress in achieving these targets. TI/FI will also take the lead in developing and carrying out plans for regular project evaluations, particularly the planned critical review in the third year which will provide the basis for a Mission determination regarding continued USAID support during Phase two of the project.

It is anticipated that USAID monitoring of the project will be more intensive during the initial period during which the key USIPO technical advisors are contracted and the initial export promotion plans are developed. Following this period it is anticipated that AID will not have to review and approve detailed subproject activity proposals but will instead review and approve funding requests based on USIPO developed annual business plans that operationalize the achievement of agreed to project benchmarks. The expatriate technical consultants will be contracted directly by USAID but the consultants under these contracts will be responsible to USIPO counterparts with USAID's role remaining one of oversight. TI/FI will assign one USDH project officer to coordinate USAID's implementation functions. USAID will be present at all USIPO Board meetings as an observer.

3. Role of USIPO

As the action arm of the Egyptian-U.S. Joint Business Council, USIPO will have the primary responsibility for implementing the project. With the assistance of long-term technical consultants, USIPO will: develop detailed strategies and plans for export promotion; carry out specific export promotion initiatives including identifying high potential markets and market requirements, finding foreign buyers, matching up buyers with Egyptian producers, and continually following up to ensure that misunderstandings are resolved quickly, constraints faced by either party are reduced or eliminated, and the transactions finally materialize; carry out required training of key staff members; procure needed materials and equipment and local technical services (small value); and establish and maintain an effective MIS for export/investment lead management and information dissemination. USIPO will also maintain adequate internal control structures and policies for use of project funds and will produce timely and complete reports on implementation progress and project resource utilization.

The Board of Directors, as described in the Institutional Analysis Section, will be the governing body that will provide overall policy guidance and oversight to the operation and management of USIPO. It will meet at least quarterly and more frequently as required to review progress, financial reports and to decide on-going and future organizational and functional activities of the organization.

The Executive Director will be hired by the USIPO Board of Directors and will be responsible for the day-to-day management of the USIPO project activities. The Executive Director will also be responsible for the administration and management of the assets and personnel of the organization and for maintaining project and financial records in accordance with approved A.I.D. policies and procedures. The Executive Director will supervise a support staff of six professionals.

4. Project Financed Long-Term Advisors

It is anticipated that the Project financed consultants will play an important role in enhancing USIPO's institutional capabilities. It is expected that one contractor will provide two long-term expatriate advisors -- one with extensive experience in organizing and managing an export and investment promotion unit (with a level of effort of three years), and the other with a strong background in export promotion techniques (with a level of effort of two years). The contractor will also provide two person-years of short-term consultant assistance available to USIPO throughout the three-year contractor involvement. These advisors will assist USIPO in improving its organizational management, developing a long-term financial plan,

in the establishment of an effective MIS to support its export promotion program, designing and executing required staff training programs, developing strategic plans for export promotion, and in the actual carrying out proactive export promotion initiatives. The long-term consultant assistance program will incorporate formal and informal training activities. The TA advisors will be responsible for providing and/or arranging for in-service training for USIPO professionals including for example on-the-job training and short-term training courses outside Egypt for selected USIPO staff members. The advisors will also provide timely reports on project implementation to USAID.

B. Procurement

1. General

The primary procurement requirements under the project will include technical assistance, training, and basic office and data processing equipment. Assistance will be provided under the project using essentially three contracting arrangements.

- First, a Cooperative Agreement between USAID and JBC will provide resources (approximately \$ 3.1 million) to finance USIPO's operating expenses, small value contracts with local TA firms (less than approximately \$40,000 each), and the cost of the trade shows and seminars.

- Second, a U.S. consulting firm, selected on a competitive basis, will be contracted directed by USAID (estimated total value of \$3.4 million) under an umbrella arrangement to provide a package of 60 person-months of long-term and 56 person-months of short-term expatriate TA, 18 person-months of training and provisions of an MIS. (This umbrella contract should be in place within 12 months. It is anticipated therefore that the buy-in assistance will provide essential TA before the USAID umbrella TA contract is in place. Annex D provides a draft terms of reference.)

- Third, USAID and USIPO will also enter into separate short-term contracts for approximately 53 person-months of U.S. and 100 person-months of local technical services for marketing, firm-specific and sector-specific technical assistance.

The authorized geographic code for project financed goods and services is 000. None of the procurements will require justifications of exceptions to the Buy America guidance. The umbrella TA contract will require the selected consultant firm to carry out all training activities in conformance with standard AID HB 10 procedures.

The estimated value of each technical services contract entered into between USIPO and any contractor will not exceed \$100,000 or its equivalent. USIPO will also procure locally furniture and office equipment. USIPO will acquire the MIS equipment from the United States through the technical assistance contractor.

Technical assistance under the project will be accessed through USAID local direct contracts with U.S. and Egyptian firms, through buy-ins by USAID to central A.I.D. contracts, and through contracts arranged directly by USIPO. The reasons for the buy-in provision are (1) to serve USIPO's need to provide assistance to firms in the interim before the central TA contractor is in place and after the central contractor is no longer present in Phase II, and (2) to provide access to specialists for short-term assignments on a rapid response basis. Similarly, USIPO will contract directly with TA providers to serve Egyptian exporters before and after the long-term TA contract, and to expand USIPO's contracting capabilities for the period after USAID funding is complete. USIPO already has a track record of experience in contracting small value external technical assistance.

The majority of project funds will be used to procure technical assistance. However, certain physical equipment and supplies will be required. A list of procurement items envisioned under the project is shown on the following page.

<u>Item Description</u>	<u>Number of Units</u>
Automobile	1
Telefax	1
Photocopy machine	1
Office furniture	Various
MIS System - Hardware	
Host computer	1
Math coprocessor	1
Personal computers (PCs)	6
Laptop PCs	2
DAT Tape Backup	1
Laser Printer	1
Plotter	1
Modem	3
Mouse	7
UPS for Host Computer	1
UPS for PCs	7
MIS System - Software	
Package systems (word processing, spread sheet, operating system, etc.)	Various
Project monitoring system	1
Export promotion system	1
Feasibility study system	1
Financial management system	1

2. Exception to Competitive Procedures

USAID will not solicit applications for the overall management of the project activities, but will negotiate directly with USIPO.

Justification of Non-Competitive Grant Award: The institutional analysis completed as a part of the project paper development (Annex D) clearly indicates that USIPO has an exclusive and predominant capability to successfully carry out the objectives of the project. Furthermore, the proposed project is designed to build on USIPO's experience gained through the ongoing USAID grant funded assistance activities.

USIPO, a small, private-sector led nongovernmental organization, was selected as the implementing entity based on several considerations. First, experience from other developing countries has shown that this type of institution tends to be the

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most effective for export and investment promotion. In addition, in most countries government export promotion agencies tend to be ineffective and overly bureaucratic. The Egyptian Export Development Center (EEDC) and GAFI are examples of this tendency. Furthermore, as discussed in Annex D, the option of establishing a new institution was not considered feasible.

USIPO has over the past year and a half gained practical experience in export promotion activities. It has over the past year successfully promoted over \$1 million of Egyptian exports.

USIPO staff have good foreign language skills. All the professional staff and most of the support staff are fluent in English, and two of the professional staff are fluent in French. These language skills are mandatory for export promotion activities. In addition, the staff all have backgrounds in the private sector. Senior management has extensive private sector marketing experience.

USIPO's management and oversight abilities have improved over the past two years. According to an evaluation of USIPO conducted by SRI International in November 1990, USAID and the USIPO Executive Board have with the concurrence of USIPO staff designed and implemented a series of management measures that have resulted in greater project focus, accountability and control. Similarly, USIPO has demonstrated its knowledge of and ability to implement USAID and internationally acceptable accounting procedures. USIPO passed a December 1990 USAID audit, which found only relatively minor faults in the USIPO's financial and accounting procedures.

Furthermore, the proposed project is designed to build effectively on USIPO's positive experience gained through the ongoing USAID grant funded assistance activities, scheduled to terminate in October 1991.

Recommendation: Handbook 13, chapter 2, paragraph 3A states:

"Competition is not required for:

Assistance awards for which one recipient is considered to have exclusive and predominant capability, based on experience, specialized facilities or technical competence, or based on an existing relationship with the cooperating country or beneficiaries; and

Follow on assistance awards intended to continue or further develop an existing assistance relationship."

Based on the justification stated herein, it is recommended that USAID enter into an agreement with JBC to utilize USIPO as implementing entity for this project.

2. Gray Amendment Considerations

USAID/TI carried out an assessment of possible 8a firms to provide the required technical assistance. This assessment included a review of available profile and capability statements of firms working in the area of export promotion. The assessment indicated that the requisite expertise is not available from these firms. In particular, none of the statements reviewed indicated any significant experience in working in exports to target market areas. Accordingly, it has been determined that this contract should be awarded following full and open competition. Small business and minority firms will be encouraged to participate in the evaluation of this project and such other activities as feasible. In signing the Project Paper Facesheet, the Mission Director certifies that the use of Gray Amendment entities to implement the project has been considered to the maximum practicable extent.

3. Anticipated Problems and Solutions

During the design of the project several implementation issues were identified and given careful consideration. They included USIPO's financial sustainability, the need to control insider information abuses, the implications of the Lautenberg Amendment, and the need to avoid administrative overload. Annex G addresses each of these issues and presents solutions for potential problems identified.

C. Implementation Schedule

The following presents an illustrative time line of activities to be undertaken to complete implementation of the overall project.

1. Project Paper Approved	August 1991
2. Pro Ag. signed with MIC	September 1991
3. PIO/T for USIPO Cooperative Agreement completed	September 1991
4. PIO/T for Expatriate TA approved	September 1991
5. Cooperative Agreement with USIPO executed	October 1991
6. First USIPO Quarter Funds released	October 1991
7. Buy-ins for firm-level TA initiated	October 1991
8. RFP for Central TA Contractor issued	November 1991
9. First annual work plan approved	December 1991
10. TA Proposals received	January 1992
11. Contractor Team selected	March 1992
12. Contractor Team arrives	May 1992
13. USIPO organizational strategy prepared	August 1992
14. Initial sectoral promotion strategies prepared	September 1992
15. USIPO Financial Assessment completed	September 1992
16. First internal evaluation, second annual work plan prepared	September 1992
17. Written promotion materials completed	October 1992
18. USIPO MIS established	November 1992
19. First external evaluation completed	September 1993
20. Third annual work plan prepared	September 1993
21. Fourth annual work plan prepared	September 1994
22. Project Authorization and Agreement amended	September 1994
23. Cooperative Agreement with USIPO amended	October 1994
24. Final annual work plan prepared	September 1995
25. Final evaluation completed	June 1996
26. PACD	September 1996

The chart presented on the following page indicates an estimated schedule for major activities to take place under the project. As shown, primary emphasis in the first year will be placed on installing systems, conducting training and improving USIPO's institutional capabilities. Overall, USIPO's activities will be determined according to annual work plans prepared by the organization, reviewed by USAID, and approved by the Advisory Committees and Board of Directors.

EXPORT ENTERPRISE DEVELOPMENT

Activity	Year 1	Year 2	Year 3	Year 4	Year 5
1. Cooperative Agreement Executed					
2. Annual Work Plans Prepared	■	■	■	■	■
3. Master T.A. Contractor Selected					
4. T.A. Contractor On-Site					
5. USIPO Financial Assessment Completed		■			
6. USIPO Staff Trained					
7. MIS System Installed	■	■	■	■	■
8. Sector Strategies Designed	■	■	■	■	■
9. Export Promotion Materials Prepared	■	■	■	■	■
10. Trade Shows Attended	■	■	■	■	■
11. Firm-Level T.A. Offered					
12. Cooperative Agreement with USIPO Amended			■	■	
13. Project Evaluations Completed			■	■	■

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While USIPO will concentrate its initial attention on training its management and employees, installing MIS systems, and putting technical assistance contracts into place, USIPO will continue to carry out export promotion. To provide guidance on these activities, the following USIPO activities on export (and investment) promotion are suggested:

First Year Promotion Program

In order to assure a well-defined, coherent marketing message, USIPO should undertake only limited marketing activities until technical assistance is available, which will take approximately six months. Indicated below are (1) those activities which can be undertaken prior to the availability of long-term technical assistance (often utilizing the assistance of consultants available under AID "buy-in" mechanisms); and (2) those activities which should commence once long-term TA is present.

Prior to Long-Term TA Availability

- o Collect information on export procedures, available assistance (e.g., export finance), and market requirements and opportunities in Europe and the Middle East, for use by Egyptian exporters.
- o Survey the exporter base in target industries. Determine whether individual firms should be classified as Tier 1 or Tier 2 firms. Create and maintain database on individual firm export capabilities. From the database, design simple hand-outs listing Egyptian export firms and their capabilities, including contact information.
- o Collect information to be used in overseas promotion. Specifically, collect information on size and composition of exports of target goods to foreign markets (i.e., data on specific fruit and vegetable exports to Europe, by country).
- o Survey visiting businessmen to determine the publications they read. This information will be useful in determining where to advertise in the future.
- o Contact Egyptian embassies and consulates in target countries, inform them of USIPO services, and establish linkages to assure that export leads are properly and rapidly channeled back to USIPO.
- o Identify sellers of direct mail lists, and media distribution services, to use in promotion.

- o Identify and make initial contact with producer associations in target industries, inform them of the project, gain their support, and establish linkages.
- o Conduct export promotion consistent with activities already being carried out by USIPO (e.g., attend trade shows, assist Egyptian exporters in marketing, etc.).

Once Long-Term TA is available

- o USIPO, with the assistance of the technical advisors, will prepare three promotional brochures:
 - A general brochure on Egyptian exports;
 - A sectoral brochure on fruit and vegetable exports; and
 - A sectoral brochure on light manufactures exports.
- o Conduct focus groups in target industries in target export markets to discern the current image of Egyptian products and producers.
- o Attend two international trade shows (or related events) related to the fruit and vegetable sector. At the shows, USIPO will: obtain export leads, assess the competition (price, quality, marketing strategy), obtain copies of trade publications as locations for future advertising, and determine the most appropriate booth type (i.e., purchased or rented, appearance).
- o Attend two international trade shows related to the light manufactures sector. The same goals listed for the agricultural shows apply.
- o Install an effective lead management system to identify and monitor progress on export transactions related to its activities.
- o Draft press releases on new investments and contracts, and improvements in business climate. Distribute to business and trade press in target countries.

V. MONITORING AND EVALUATION PLAN

A. Introduction

This new project will provide support to an organization which has operated since 1981. The recent SRI evaluation recommended that any follow-on support should include assistance to improve USIPO's data collection and monitoring system, particularly with regard to exporter and investor tracking and follow up. USIPO recently hired a consultant to assess the information requirements and to make recommendations. Funding is included in the project budget to implement these recommendations. Annex D provides an analysis of the modifications proposed by the MIS consultant.

B. Users of the Information

The major information users will be: On a daily and weekly basis, the USIPO Executive Director, the industry promotion specialists and USIPO's clients (buyers, sellers and prospective joint-venture partners); and, on a monthly and quarterly basis, the USIPO Board of Directors, the Advisory Groups and USAID.

C. Institutional Locus

One objective of this project is to develop and maintain a Management Information System (MIS) to respond adequately to requests for information from potential Egyptian and foreign business partners. This MIS will also provide a capacity for overall project data collection, monitoring, and evaluation. The information will be collected and entered by a USIPO information specialist together with the industry promotion specialists and project-funded consultants.

The MIS will generate administrative information which will provide USIPO management and the USAID project officer with an internal accounting of the use of financial and human resources. Quarterly and annual monitoring reports will aggregate and analyze administrative information so that decision-makers can track progress against predetermined targets. The MIS will be designed to measure performance against the objectives and targets outlined in the annually updated USIPO work plan and the annual sectoral export promotion plans.

During the first two years the project-funded consultants will oversee data collection and analysis. The USIPO staff responsible for maintaining the information, working with long-term and short-term consultants, will develop a comprehensive data collection, monitoring and evaluation plan for the project during the first year of implementation. By the third year the USIPO staff will be fully capable to carry out all required data collection and analysis responsibilities.

D. Methodologies for Data Collection, Monitoring and Evaluation

Information collected will address project impact and achievements, and project costs and budgeting requirements for USIPO planning and resource allocation decisions. Much of the information required will be related to tracking the status of the ongoing "proactive" project export activities, and progress in achieving the project benchmark indicators, the institutional development of USIPO and its sustainability. An illustrative set of indicators for the first phase of the project are presented below.

<u>Goal-level Indicators</u>	<u>Data collection Methodology</u>
Economic growth rates	IMF, IBRD statistical reports GOE statistical reports
<u>Purpose-level Indicators</u>	
Nontraditional export growth	IMF, IBRD statistical reports GOE statistical reports
Project-assisted export growth (including an examination of backward linkages)	USIPO MIS system Surveys of firms assisted
<u>Output-level Indicators</u>	
Effective promotion unit	Evaluations Surveys of firms assisted
67 trade shows	Evaluations
25 seminars	Evaluations
<u>Input-level Indicators</u>	
Technical assistance to USIPO	Evaluations
Technical assistance to firms	Evaluations
18 person-months training	Evaluations
MIS hardware, software	Evaluations, audits
Project travel	Evaluations, audits
Funding for USIPO	Evaluations, audits

The project technical advisors will conduct periodic (about once every six months), short-duration, informal surveys of USIPO's clients. These surveys will be designed to complement the information otherwise available through the MIS and help assess the effectiveness of the project-financed export promotion activities. These surveys will be directed at gathering information to examine:

- the extent to which USIPO is delivering appropriate, relevant, and timely information and services to exporters;
- which service strategies appear to have had the greatest impact;
- the extent to which the services appear to have been cost effective;
- the extent to which Tier 2 firms have been assisted through the project and through Tier 1 firm backward linkages;
- the extent to which USIPO has had an impact on the firms they assist.
- the extent to which USIPO has had an impact on exports in the target areas;

As the project progresses, USIPO and USAID will further develop mutually agreed to indicators for measuring progress, performance, and achievements. These indicators will provide the basis for determining which data to collect and analyze, and will provide a focus for Project evaluations. New procedures will be developed for use by USIPO in collecting and maintaining the information needed to measure progress in achieving these indicators as a part of the USIPO MIS.

E. Feedback

As the MIS becomes fully operational, the USIPO information specialist will ensure that the required periodic reports are completed and reported to the users of the information. In addition, the first several reports produced will be reviewed by the consultants, USIPO management and the USAID evaluation staff for appropriateness of data and overall efficiency as an evaluation exercise. USIPO Board members and senior management, working with the consultants, should have more frequent access to data analysis so that modifications and improvements in project implementation can be made in a timely manner.

F. Evaluation Schedule

USIPO will be charged with conducting annual internal evaluations at the end of each year of the project as preparation to the development of annual work plans. These internal evaluations will focus on activities undertaken and on progress achieved toward meeting project goals. The first external evaluation will be completed during the second year of the project and will serve as an important basis for determining whether or not to continue with Phase Two of the project. This first external evaluation will use the indicators described above to assess project performance. The second evaluation will be completed during the last year of the project and will focus on the effectiveness of the project as measured by the indicators presented above.

G. Audit Arrangements

The grantee will be required to have annual audits conducted. Annual audits of financial reports and project activity will be conducted. These audits will be conducted in compliance with generally accepted auditing principles as applied in the U.S. These audits will be carried out under contracts between USIPO and local USAID approved CPA firms. USAID will approve the scopes of work for these contracts. As further discussed on page 52, a financial assessment of USIPO's financial management and internal control systems will be carried out in the first year of the project.

The project financial plan allocates \$250,000 for both audits and evaluations, with the exact line items for either or both activities to be delineated as the project progresses.

VI. CONDITIONS AND COVENANTS

Following the approval of the Project paper, negotiations regarding the responsibilities of USAID, USIPO, and the GOE will take place. It is anticipated that the following covenants will be contained in the Project Grant Agreement.

A. Cooperative Agreement with USIPO

The Grantee (GOE) agrees that USAID shall enter into a Cooperative Agreement with JBC/USIPO, financed under the Grant, pursuant to which USIPO will implement Project activities, as described in Annex 1 to the Grant Agreement.

B. Import Duties and Taxes

The Grantee agrees that the Ministry of International Cooperation shall provide letters of guarantee as needed to the Government of Egypt Customs Administration for:

- (1) all commodities, including vehicles, financed under this Grant;
- (2) all materials, equipment, supplies, and vehicles imported by any firm or organization financed under this Grant which are to be used for Project purposes; and
- (3) all household effects and personal vehicles imported by non-Egyptian individuals financed under this Grant. All such letters of guarantee will provide for payment of customs duties and all other taxes in the event that the commodities imported are not exempted from customs duties or re-exported.

The Grantee agrees that it will take any other necessary actions regarding customs and taxes to ensure that any assessed customs duties and taxes are either paid from non-Project funds, or an exemption therefrom is provided.

C. Covenants to be Included in the Cooperative Agreement Between JBC/USIPO and USAID

The Cooperative Agreement will include a covenant pursuant to which JBC will agree not to use resources made available under the Cooperative Agreement for any activities which violate the Lautenberg Amendment.

The Cooperative Agreement will also include a covenant stating that USAID funding of USIPO in Phase II of the project (years 4 and 5) will be conditioned on USIPO's achieving satisfactory progress in meeting the Phase I targets specified in the Project Paper.

VII. COST ESTIMATES AND FINANCIAL PLAN

A. Budget

The total cost of the project is estimated to be \$12.5 million, of which \$10 million will be financed with AID grant funds, \$2.5 million will be contributed by USIPO and by participating private sector firms. The latter amount will be generated by fees for services, contributions (financial and in kind), other government or donor support, and other income generating activities carried out by USIPO. For example, USIPO is currently experimenting with success fees on export contracts consummated. An initial financial self-sufficiency strategy is presented in Annex D. It is expected that USIPO will generate the \$2.5 million from fees for services, fees for firm-specific assistance, contributions (financial and in-kind), and other sources of revenue. The local contribution includes in-kind contributions provided by Tier 1 firms to Tier 2 firms.

Tables 1 and 2 show project expenditures by project element and by project year. Inflation is estimated to be 15 percent for LE costs and 5 percent for dollar costs. Inflation estimates are included in all detailed costs.

B. USIPO's Financial Assessment

AID requires that an assessment of USIPO's financial management and internal control systems be made. As systems were designed for USIPO by a CPA contractor in January 1990, including financial, accounting and internal regulations, and followed by a Mission audit in December 1990, it was determined that the current USIPO systems are adequate. In addition, a financial assessment of USIPO will be carried out in the first year of the project.

C. Financial Arrangements

The primary AID contribution is for financing the costs of USIPO operations (\$5.308 million) to support staff salaries, travel, office rental and equipment, and trade shows and seminars. A second category is for technical assistance and training (\$4.442 million). AID funds will also support the technical assistance costs of project monitoring and evaluation and audits (\$0.250 million).

The primary USIPO and private sector contribution will be generated through fees collected from participating exporter firms which will be used to help cover the projected USIPO operating costs, as described above.

The method of implementation of USIPO's operations will be a cooperative agreement. AID will directly reimburse USIPO costs. Because no funds are currently available to USIPO from other sources of funding, AID will advance to USIPO local currency purchased with project funds and dollars to finance these costs. Even though an advance is provided, this method of implementation is still characterized as one of the AID preferred methods.

Table 1

Summary Cost Estimate and Financial Plan

(AID Funding: U.S. \$ Thousands)

<u>Project Element</u>	<u>FX</u>	<u>LE</u>	<u>Total</u>
1. USIPO Operations	1,950	3,358	5,308
2. Technical Assistance/Training	4,392	50	4,442
3. Evaluations/Audit	<u>200</u>	<u>50</u>	<u>250</u>
TOTAL	6,542	3,458	10,000

Table 2
Budget Estimates by Year

(US \$ Thousands)

<u>Category</u>	<u>Year 1</u>		<u>Year 2</u>		<u>Year 3</u>		<u>Year 4</u>		<u>Year 5</u>		<u>TOTAL LOP</u>	
	<u>AID</u>	<u>CC</u>	<u>AID</u>	<u>CC</u>	<u>AID</u>	<u>CC</u>	<u>AID</u>	<u>CC*</u>	<u>AID</u>	<u>CC*</u>	<u>AID</u>	<u>CC*</u>
USIPO Expenses	869	-	1,062	-	1,031	200	1,150	700	1,196	1,600	5,308	2,500
Org. Expend.	479	-	422	-	461	-	500	-	546	-	2,408	-
Firm/Sec. Cont.	160	-	160	-	240	100	320	550	320	1,100	1,200	1,750
Tr. Shows/Sem.	230	-	480	-	330	100	330	150	330	500	1,700	750
Tech. Asst. Cont.	792	-	1,254	-	824	-	300	-	300	-	3,470	-
TA Cont. Expend.	594	-	1054	-	724	-	300	-	300	-	2,972	-
MIS	148	-	100	-	-	-	-	-	-	-	248	-
Training	50	-	100	-	100	-	-	-	-	-	250	-
TA Buy-ins	314	-	128	-	100	-	214	-	216	-	972	-
Eval./Audit	<u>25</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125</u>	<u>-</u>	<u>250</u>	<u>-</u>
TOTAL	2,000	-	2,444	-	2,055	200	1,664	700	1,837	1,600	10,000	2,500

* Note: Counterpart Contribution breakdown is illustrative and will be subject to Phase I evaluation

Table 3

Implementation and Financing Methods
(LOP AID Financing Only)

<u>Activity</u>	<u>Method of Implementation</u>	<u>Financing Method</u>	<u>Approximate Cost (\$000)</u>	<u>Implementing Entity</u>
USIPO's Operations	AID Direct Cooperative Agreement	Advance/Reimbursement	5,308	AID
Technical Assistance	AID Direct Contracts	Direct Payment	3,670	AID
TA Buy-ins	AID Direct Contracts	Direct Payment	772	AID
Audit and Assessment	AID Direct Contract	Direct Payment	50	AID
Evaluation	AID Direct Contract	Direct Payment	200	AID

Table 4

Obligation and Budget Estimates: Five-Year Project
(U.S. \$ Thousands)

<u>SUMMARY OBLIGATION</u>	<u>AID LOP</u>	<u>AID FIRST FY 91</u>
1. USIPO OPERATING EXPENSES	5,308	869
2. TECHNICAL ASSISTANCE/ TA BUY-INS	4,442	1106
3. AUDIT AND EVALUATION	<u>250</u>	<u>25</u>
PROJECT TOTAL	10,000	2,000

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1. See "Issues Paper: Egyptian-U.S. Trade and Investment Initiative," April 1991. This paper was based on background analysis and the results of a comprehensive questionnaire survey conducted by USAID with 30 Egyptian business leaders.
2. See Rasha Abdel-Hakim, USAID/EAS, "Updated Analysis of Non-Traditional Exports: 1985-1989," June 24, 1990; and "Composition and Direction of Egypt's Exports," January 1991.
3. See Ernst and Young, "Business Services in International Trade and Investment Promotion," an AID report financed under the Market and Technology Access Project (MTAP). See also Louis Berger International, Inc., "A.I.D. Evaluation Special Study No. 69," May 1990.
4. The Development Economics Group of Louis Berger, "Promoting Trade and Investment in Constrained Environments: AID's Experience in Latin America and the Caribbean," November 1989.
5. In 1989, the Carana Corporation carried out preliminary market testing through extensive interviews in Europe and the United States and an assessment of potential Egyptian suppliers. Further evidence was provided by an internal USAID study on "The Composition and Direction of Egyptian Exports," completed in January, 1991.
6. National Cooperative Business Association (NCBA) and Agricultural Cooperative Development International (ACDI), "Fruit and Vegetables (FAV) Export Production and Marketing Project," revised draft, July 1991.
7. This finding was reached by a CARANA Corporation team contracted by USAID to conduct an export potential study in 1989.
8. This approach is consistent with the success of the USAID/Indonesia promotion project.
9. SRI International, "Survey of U.S. Business Networks for JUST Business", conducted for USAID/Thailand, February 1991.

memorandum

DATE: May 9, 1991
REPLY TO: Mary June, PDS/PS (ll)
ATTN OF:
SUBJECT: Executive Committee Review of the Export Enterprise Development
PID, 263-0226
TO: See Distribution

The Executive Committee reviewed the subject PID on May 6 and approved the development of a Project Paper subject to the following guidance.

1. Project Purpose: The Project should focus on one purpose, i.e. to increase non-traditional exports produced by the private sector. Export targets consistent with this purpose should be identified and quantified or otherwise described in measureable terms. The objective of increasing USIPO's institutional capability should be limited to that which is necessary to achieve these targets. Although institutional sustainability of USIPO is not a goal of the EED Project, the PP should build in a fee structure which increases over the life of project so that USIPO can assume more of its recurrent costs as the project progresses.
2. Constraints Analysis: The constraints analysis as a separate project activity should be dropped. There is no demonstrable need for \$1 million worth of analyses under EED since these analyses will largely be undertaken either prior to, or outside of, this Project. Policy or other sector-wide constraints will be addressed in a separate project (Private Center for Economic Research). The bureaucratic/regulatory process for exporting will be studied during PP design so that these and other project-specific impediments can be identified, to the extent possible. Assistance to exporters in resolving micro-level constraints which cannot be clearly identified during PP development can be provided under the proactive export promotion component. The analytical base of the PP should describe problem areas and the resources required to effectively address them, and fashion targets appropriately.
3. Project Phases: The Project should be developed as a five year activity, with a critical review undertaken in year 3 that will evaluate levels of achievement and determine if satisfactory progress is being made. The PP should describe a five-year, \$10 million project with an estimated initial authorization of \$6 million (or the estimated cost of the first 3-year phase). Mission authorization to continue with the final phase will be made in year 3.

4. Target Areas: An initial export promotion plan describing product lines targeted for project support should be provided in the PP. Although five probable fruit and vegetable exports have been identified with some certainty, potential exports in the area of light manufacturing need to be explored further. Targeting of products for EED support should take into consideration the provisions and policy expressed in the Lautenberg Amendment, particularly with regard to textiles. During PP design the Mission should look into other AID experience in similar activities worldwide, and also investigate shared financing with European donors.

5. Insider Interest: The PP should take whatever steps possible to protect USIPO executives from possible conflict of interest situations arising from inside information gained in the exercise of their project responsibilities. The PP should explore methods for expanding the export base by extending project services to as many exporters as possible as a possible means for mitigating insider interest conflicts.

6. Technical Assistance Contracts: The mode of contracting for technical assistance is through full and open competition because the specialized technical assistance which will be required is likely to be available only through large financing. However, the 8(a) T.A. "market" will be canvassed in order to ascertain whether any 8a firm might have the requisite expertise.

Distribution:

DIR, MBrown
A/DIR, GWachtenheim
AD/TI, GHuger
A/AD/LEG, VMoore
MGT, KKester
TI/FI, RKirk
A/AD/PDS, FMiller
AD/EAS, SSkogstad
EAS, RAdler

Logical Framework
Export Enterprise Development Project (253-0226)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<u>Goal:</u> To increase Egypt's economic growth through increased foreign exchange earnings.	Increase private sector exports	1. Central Bank of Egypt reports 2. IMF, World Bank reports 3. Project Evaluations	1. Policy and regulatory environment does not worsen 2. Continuation of Political stability
<u>Purpose:</u> To increase non traditional exports by Egyptian private sector.	<ul style="list-style-type: none"> - Private sector exports will have increased \$75 million from firms directly assisted by the project. - The number of products and/or volume of exports to European and Middle Eastern markets will have increased for at least 11 fruit/vegetable products and 6 light manufacturing products. - A private sector mechanism for promoting Egyptian exports will be in place. 	1. Project evaluations 2. Contractor reports 3. USIPO reports	1. GOE support for actions to liberalize the economy continues
<u>Outputs:</u> Improved proactive export promotion, information dissemination and constraint identification by USIPO.	<ul style="list-style-type: none"> - Preparation and implementation of a detailed organizational strategy, including a long-term financial plan for USIPO. - Preparation and initiation of sectoral promotion strategies for fruit/vegetable and for light manufactured good exports. - Completion of written promotion materials (guidebooks, brochures, etc.) to support both general and sector-specific marketing. - Fully implemented training plan, MIS system and organizational/funding plans by USIPO. 	1. Project Evaluations 2. Contractor reports 3. USIPO reports	1. GOE remains supportive of project 2. Inputs arrive as planned
<u>Inputs:</u> Technical assistance /Training Trade shows, operating expenses	\$10 million	1. USIPO Reports 2. USAID Reports 3. Project Evaluations	

ANNEX C

TECHNICAL ANALYSIS

This technical analysis summarizes three issues examined by the project design team. The first is a target industry analysis, preceded by brief assessment of Egypt's export potential and comparative advantages, both of which determine potential target industries. The second is an assessment of the nature of constraints facing producers of nontraditional export commodities. The third is an examination of the implications of the "Lautenberg Amendment" of the Foreign Assistance Act, and the identification of implementation procedures to ensure that the project conforms to the Lautenberg Amendment.

A. Target Market Analysis

Although starting from a narrow base, Egypt possesses considerable potential for expanding nontraditional exports. The nation's sales of these exports grew from \$523 million in 1985 to \$1.2 billion in 1989, expanding at an average annual rate of 22.5 percent. The share of private sector exports in this category rose from 8 percent to 34 percent of total nontraditional manufactured-good exports over this period. This growth occurred even in a policy environment initially geared toward import substitution rather than export promotion.

The economic climate for private sector exports from Egypt has improved considerably in recent years, most importantly due to reforms in commercial policies but also to considerable advances in the country's infrastructure. With these changes, especially those made in economic policy, a proactive export promotion project now has a high probability of success.

A similar project would not have been viable several years ago. Now, however, as many of the most important barriers to private firms ability to compete in international markets have been lowered significantly, firms will be able to take advantage of the services provided by an export promotion project. Where previously, an overvalued exchange rate left Egyptian products uncompetitive, or a dysfunctional telephone system made rapid communication with foreign markets close to impossible, these barriers have largely been eliminated.

In order for proactive export promotion to be successful, its activities must be targeted to a relatively narrow set of products or sectors. Resources available for export promotion are limited, and if they are to be effectively used, they should be applied

selectively to those areas which show the greatest promise. The following technical analysis will identify those areas where Egypt holds the greatest potential and identify constraints that would limit Egyptian growth. In doing so, this analysis will explain the technical feasibility of proactive promotion of Egyptian private sector exports.

Egypt clearly has potential for rapid growth of private sector exports in two broad product areas: fresh fruits and vegetables, and light manufactured goods. This potential is due to a host of economic, climatic, geographic and political factors, and has been demonstrated by the growth of private sector exports in these areas. The variables that lead to this conclusion are the same factors that collectively determine Egypt's export potential and comparative advantages.

Factors Underlying Egypt's Export Potential

Improved Policy Environment. Over the past three years, and especially over the past six months, the policy environment for private sector exports in Egypt has improved dramatically. With these improvements, an expanding range of products are becoming internationally competitive.

Experiences from other developing countries has shown that three policy conditions must be met to achieve rapid growth in nontraditional exports. These include:

- (1) The maintenance of a competitive exchange rate;
- (2) Reliable access to raw materials and intermediate inputs at world market prices; and
- (3) Access to export financing at competitive rates.

With the recent exchange rate and financial system reforms, Egypt is close to achieving the first and third of these policy conditions. Some progress has been made towards achieving the second condition, but in this area the policy environment for Egyptian exporters is still weak.

The Egyptian government is committed to establishing a unified market-based exchange rate system, which experience has shown is the best manner to assure the maintenance of a realistic and competitive exchange rate. With the recent devaluation, Egyptian labor-intensive exports are potentially highly competitive, due to the very low wage rate in dollar terms.

Similarly, with the liberalization of the banking system and consequent increased competition in the financial sector, Egyptian exporters have access to export financing at competitive rates.

Even before the financial system reform, exporters' access to export financing was relatively good, as bankers were eager to establish relationships with foreign exchange earners. However, exporters do report that bankers are somewhat inexperienced with export transactions and slow in processing credits. However, apart from the quality of service, Egyptian exporters can obtain all types of export financing.

The impact of the temporary ceiling on bank lending to the private sector on exporters is not yet known. It is likely, however, that since banks are eager to obtain foreign exchange, export finance will be the last area to be curtailed. In any case this is a temporary policy that should have limited if any material effect on the medium term export environment.

Over the past two years the functioning of the duty-drawback system and temporary admission systems which allow exporters to obtain imported inputs at world prices has improved. However, these systems are still cumbersome. Delays of several months are still common for the reimbursement of duties and consumption taxes under the drawback system, and less than full reimbursement is still the norm. Temporary admission is relatively costly compared to duty exemption programs operated in many developing countries, and the Egyptian system is essentially available only to well capitalized firms that can pay the necessary bank guarantees. While access to imported inputs is weak but improving, access to reliable domestic inputs at world market prices is an equally problematic area.

Apart from the functioning of the duty-drawback system, bureaucratic delays regarding the processing of export or import controls are reported by exporters to be now at worst a minor nuisance. Compared to practices in the past, the situation is vastly improved, and reflects a genuine government attempt to assist exporters in avoiding unnecessary official red-tape.

Large supply of low cost Egyptian labor. Egypt has the largest and lowest cost semi-skilled and unskilled labor market suitable for a broad range of light manufacturing activities as well as labor intensive agriculture within the Mediterranean region. Labor costs for semi-skilled production workers, including fringe benefits, were reported by Egyptian manufactures to be about LE 200 -300 per month, or between \$0.36 to 0.45 hour. Manufacturers would have to travel to South or East Asia to find such a large and low cost supply of labor. Moreover, unlike its Asian competitors, Egypt enjoys unrestricted access to the EC market.

Comparative labor costs of Egypt and a select number of developing countries are shown on the following table. Egypt clearly possesses the potential for labor-intensive export growth.

TABLE 1
Comparative Labor Costs 1990-91
(Semi-Skilled Production Workers)

Country	Labor Costs/Hour (US\$)
Hong Kong	2.70
Tunisia	0.81
Malaysia	0.76
Haiti	0.75
Dominican Republic	0.72
Thailand	0.53
Indonesia	0.45
Egypt	0.40

Source: Various sources, compiled by SRI International.

While low in cost, Egyptian labor is also low in productivity. When productivity differentials are taken into account, Egypt's cost advantage shrinks. But with the recent devaluation, Egypt is the lowest cost labor supply within the Mediterranean region. The following table presents productivity adjusted labor costs in the garment industry. The garment industry serves as a good proxy for general light manufacturing labor costs.

TABLE 2
Productivity-Adjusted Labor Costs in the Garment Industry

Country	Labor Cost/Minute (US\$)
Hong Kong	0.148
Morocco	0.129
Tunisia	0.112
Egypt	0.108

Source: Based on 1990 survey conducted by Kurt Solomon Associates quoted in "German Arab Trade," Winter, 1990, page 39. Original results have been adjusted to account for exchange rate changes through March, 1991.

Strong Agricultural Resources. Egypt enjoys a year-long growing season. In addition, with suitable irrigation, there are minimal climatic risks. Soils are also of good quality and are suitable for a very broad range of fruits and vegetables.

Geographic proximity to the large EC and Middle Eastern markets. Compared to competitors in Asia and for light manufactures, and to the Southern and Western Hemisphere for fruits and vegetables, Egypt's geographic proximity lowers transport cost and time to these markets. Air transport rates at between \$0.66-0.85 per kilogram are less than half of those paid by exporters in Kenya, South Africa or Jamaica to Europe, and a third of those paid by Southeast Asian producers. Sea transport rates from Egypt to Europe are about one-third of those from Hong Kong. If one also includes the two-week longer transport times from East Asian countries to European ports, Egyptian producers have an approximate one-half percentage point savings in interest costs on each shipment.

Preferential Market Access to the EC and Arab Country Markets. Egypt enjoys duty-free and unrestricted access to the EC for all industrial goods, except a few textile commodities. In addition, Egypt also enjoys preferential, but restricted access to EC fresh fruits and vegetable markets. Egypt generally has duty-free access to Middle Eastern markets.

Textile Agreement: Currently, except for cotton fabric and yarn, which are not currently exported by the Egyptian private sector due to the government monopoly in cotton processing, only one type category of Egyptian exports are under a quota. This quota covers bed linens and only to the UK. Apart from this one category to the U.K., Egyptian private sector exporters of garments currently face no quota or restriction for exports to the EC.

The current Egyptian-EC textile agreement expires at the end of 1991. Given Egypt's current low level of garment exports relative to other Mediterranean countries, it is unlikely that binding quotas would be set in the near term. An EC document which outlines Egyptian access to EC textile markets closes with a statement that expresses a hope to "restore full and free, and unrestricted access for Egyptian textile exports to the EC market."

Fruits and Vegetables: Egypt, along with other Mediterranean countries, pays a sharply reduced duty on fresh fruits and vegetables to the EC compared to the Common External Tariff. For some products the duty is higher during the peak growing seasons in Europe to protect EC producers. However, under the current agreement between the EC and Mediterranean producers the duty for most products is scheduled to be eliminated by 1996. For a few products, such as citrus and onions and garlic, a small duty will remain for exports above a quota level.

Although duties are generally low and scheduled to be reduced and then eliminated for most products, products cannot be sold

below a reference price which is essentially a moving average of prices over the preceding three to five years. With the reference price system, competition in the EC market is based primarily on quality and reliability, not on price.

Improved infrastructure. Over the past ten years, Egypt's economic infrastructure, financed in large part by multilateral and bilateral donor agencies, has improved dramatically. Electricity is generally reliable, except in more remote areas, and relatively low in cost. Telecommunications, especially international links, by developing country standards are very good. Exporters note that there are seldom problems in sending or receiving faxes, telexes or international phone calls.

Egypt's air transport infrastructure is adequate, but the ports, especially container facilities, are not up to international standards. Loading times are slower and less reliable than those in competing Mediterranean country facilities, including Morocco, Tunisia or Turkey.

Adequate internal private sector financial resources. Unlike in most other developing countries, Egypt's private sector has significant financial resources at its disposal to finance new projects or improvements. Those interviewed by the project design team indicated that lack of financial resources is not considered to be a major impediment for existing exporters. Clearly, the lack of working capital markets for private securities limits the amount of financial resources firms can generate for investment purposes, but analysts generally agree that Egyptian private sector manufacturers are able to mobilize the necessary capital for new investments, primarily from internal and family sources.

Target Geographic Markets: EC and Middle East Markets

Countries in the European Community and in the Middle East are the most promising markets for Egyptian exports for several reasons. As described above, Egypt enjoys preferential market access to both regions, and geographic proximity lowers transportation costs. In addition, except for Eastern Europe and the USSR, Egypt has already established its greatest commercial links with these markets, and therefore a focus on the EC and Middle East would build on Egypt's strengths.

The EC also represents the largest single market unit in the world. Although the total demand from Middle East markets is much smaller than that of the EC, tastes and customs are closer to those of Egypt, which makes it easier for Egyptian producers to adjust production to the demands of the export market. Moreover, overland links lower transport costs to Middle East markets, and allows for rapid delivery of merchandise.

It should be noted that Eastern Europe and the USSR are collectively Egypt's largest market for both fresh fruits and vegetables (primarily citrus) and light manufactures. Egypt's relative success in these markets reflects the lower quality standards of these markets and official countertrade arrangements, and therefore does not reflect real competitiveness. Given the economic uncertainty prevailing in these markets, it would not be appropriate to target them for increased exports. Demand is likely to fall over the near-term to medium-term as these countries adopt structural adjustment measures. Moreover, as they move to market-based systems, the use of countertrade arrangements will decline and quality standards in the markets will increase markedly as competition in domestic markets intensify. Accordingly, if Egyptian producers can succeed in the high quality standard EC and Arab markets, they will also be able to export to the transforming markets of Eastern Europe and the USSR.

Market Indications of Egyptian Export Capabilities: Recent Export Performance

In response to the improving economic environment for private sector exports in Egypt, both light manufactured and fresh fruits and vegetable exports to the Middle East and Western European markets have grown sharply, albeit from insignificant levels. Between the fiscal years of 1986/87 and 1989/90, light manufactured exports to these two markets grew by an annualized average of over 80 percent, and totalled \$128 million by 1989/90, compared to only 20.8 million in 1986/89 (See Table 3). It appears that fresh fruits and vegetable exports also grew rapidly during this period, although there is contradictory evidence. One statistical source, CAPMAS, reports a near tripling of fresh fruits and vegetable exports during, growing from \$33 million in 1986 to \$96 million in 1989. Anecdotal accounts made by private exporters also indicate increased activity, but not the near of tripling of fruits and vegetable exports (See Table 4). Other evidence points to a sharp increase in fruits and vegetable exports since 1986. The rapid rates of growth clearly indicate Egypt's competitive capabilities in both of these sectors, and thereby the appropriateness to target these sectors and markets.

It should be noted that light manufacturing products or fruits and vegetables which are predominantly produced and exported by the public sector are not included in these statistics. Textiles and cotton yarn are not included, for example, because the vast majority of production and exports is controlled by public sector companies. Public sector companies do export significant amounts of garments, but the vast majority is to Eastern Europe and the USSR.

Table 3
EGYPTIAN LIGHT MANUFACTURING EXPORTS
(\$ Millions)

	<u>To Europe</u>		
	<u>1986/87</u>	<u>1988/89</u>	<u>1989/90</u>
*Garments	10.9	33.5	69.1
*Leather Products	0.6	1.3	2.3
*Carpets	0.4	1.5	5.6
Furniture	---	1.0	1.7
Ceramics	---	0.3	1.8
Prepared Foods	0.6	2.6	2.0
Other Manufactures	<u>2.3</u>	<u>0.8</u>	<u>3.6</u>
TOTAL	15.4	41.0	86.1

	<u>To the Middle East</u>		
	<u>1986/87</u>	<u>1988/89</u>	<u>1989/90</u>
*Garments	2.6	7.1	8.9
*Leather Products	0.1	0.7	2.4
*Carpets	---	2.0	4.6
Furniture	0.4	3.0	4.2
Ceramics	---	0.3	4.0
*Footwear	0.8	1.8	4.6
Glassware	---	5.3	7.1
Prepared Foods	1.2	3.8	4.3
Other Manufactures	<u>0.3</u>	<u>4.5</u>	<u>2.2</u>
TOTAL	5.4	28.5	42.3

SOURCE: CAPMAS.

*Lautenberg Amendment Sensitive Products.

Table 4

**EGYPTIAN FRESH FRUITS AND VEGETABLE EXPORTS
(\$ Millions)**

	<u>1980</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
TOTAL	57.1	34.4	36.1	114.1	97.4
Vegetables	50.3	31.1	34.6	113.5	96.5
Potatoes	29.5	11.8	16.4	74.6	61.8
Onions	10.2	3.5	8.2	22.3	2.0
Tomatoes	0.9	3.3	3.3	6.8	5.8
Green Beans	---	4.3	2.3	4.5	4.1
Other	9.7	7.8	4.5	5.2	4.6
Fruits (excluding citrus)	6.8	3.3	1.5	0.6	1.9

SOURCE: Fruits and Vegetables (FAV Export Production and Marketing Project) Draft Proposal, ACDI, NCBA. CAPMAS.

NOTE: CAPMAS statistics reveal that about 85 percent to 90 percent of these exports go to Western Europe and the Middle East, with remainder going to Eastern Europe and the USSR.

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Industry observers report that public sector companies rarely have the capability to meet the quality standards of the Western European or Middle Eastern markets. Citrus exports are also not included, although they represent over 90 percent of Egypt's current fruit exports, because AID is legally proscribed from assisting citrus growing activities, and also because the vast majority of citrus processing and marketing is conducted by public enterprises.

Potential Light Manufactured Export Products: Although the rate of growth of this sectors exports has been rapid, there are only a limited number of products or sub-sectors which have reached significant levels of exports. Only six light manufacturing industries have exports exceeding \$1 million to Western Europe and only seven to the Middle East. (See Table 3) These industries include:

-- Garments. Clothing is the most important private sector export, accounting for over 80 percent of total light industry exports. Egypt clearly has potential for much greater increases. Tunisia, for example, exports almost ten times more to the EC, without a local cotton industry and wages that are two to three times higher than those prevailing in Egypt.

-- Leather products. Egypt has traditional strengths in leather products, and with assistance from an EC-financed export promotion program producers have begun to adopt designs and meet quality standards required in Europe.

-- Carpets. Carpet exports are dominated by a few larger companies that produce machine-made carpets. Some own their own retail outlets in the EC and the United States.

-- Furniture. Furniture exports are primarily traditional Egyptian designs. Egypt's competitive advantage is based on limited but specialized design for Egyptian styles. The need to import wood limits Egypt's abilities to compete beyond the market for traditional designs.

-- Ceramics. Ceramics exports are primarily in the form of tableware, but also include some other housewares such as toilets and sinks sold in the Middle East. Ninety percent of the sales to Western Europe are to Italy.

-- Glassware (to Middle East countries only). Close to 90 percent of these exports are bottles and jars. Given the relatively high weight/price ratio, it is unlikely that this success to the Middle East could be duplicated in Europe.

-- Footwear (to Middle East countries only). Exports to Europe are limited by the fact that leather imports are banned, and to date the local tanning industry does not produce sufficiently high quality leather uppers.

-- Prepared foods. To a large extent the growth of prepared foods exports depends on increased supplies of market quality fruits and vegetables. Accordingly, any promotion program in this area should be coordinated with those in fresh fruits and vegetables. It should be noted that the H.J. Heinz Company is proceeding with plans to establish a tomato paste factory, from which a substantial portion of output will be exported to Middle East nations.

Ceramics and glassware can be grouped together under a housewares product group. In addition, included in other manufactures are flatware and silverware in which several producers are exporting to both Western Europe and the Middle East. These products can be added to the housewares category.

Only in these few industries has the Egyptian private sector demonstrated its ability to produce internationally acceptable products at competitive prices, and accordingly these industries will best be able to use the services provided under a proactive export promotion program. Other light industry products have not passed the test of the market, and therefore, it would be risky to target resources toward them.

Potential Demand: For all of these products identified, the potential demand is huge. To the EC, Egypt's market share for all of these markets, except carpets, is less than one-third of a percentage point (See Table 5). The weighted average is only 0.3 percent. Accordingly, there is clearly sufficient demand for Egypt to expand its light-manufacturing exports in these few product areas. However, if garment exports were to expand rapidly to this level, it is likely that restrictive quotas would be applied. Egypt's current market share in the Middle Eastern market is much higher than Egypt's share in Western Europe, but in no product other than carpets does Egypt's market share exceed 6 percent, and the weighted-average for the products listed equals only 1 percent.

Potential Areas for Fresh Fruit and Vegetable Exports: Due to lack of a source for reliable statistics on fresh fruits and vegetable exports, it is difficult to use the test of the market to assess fully the capabilities of Egyptian producers and exporters to deliver quality products to the EC and Middle East Market. While the rate of growth of fresh fruit and vegetable exports is not clear, a significant amount of vegetables are being exported both to Western Europe and Middle East markets. Fresh fruit exports other than citrus are limited at present.

Table 5

POTENTIAL MARKET

	EC		MIDDLE EAST	
	<u>Total Imports</u> (\$ Millions)	<u>Egyptian Market</u> <u>Share 1989/90</u>	<u>Imports</u> (\$ Millions)	<u>Egyptian Market</u> <u>Share</u>
*Garments	17,895	(0.3%)	1,595	(0.6%)
*Leather Products	1,387	(0.2%)	102	(2.3%)
Carpets	662	(0.8%)	32	(14.4%)
*Furniture	2,505	(0.1%)	789	(0.5%)
Ceramics	1,690	(0.1%)	74	(5.4%)
*Footwear	3,096	---	393	(1.2%)
Glassware	2,996	---	229	(3.1%)
Prepared Foods	11,159	---	694	(0.6%)
Fruits and Vegetables	4,225	(2.5%)	775	(8.1%)

SOURCE: Eurostat, External Trade, #4, 1991. Yearbook of International Trade Statistics, United Nations, 1990. SRI and CAPMAS.

*Extra EC imports.

As Table 4 indicates, Egypt's current strengths lie in the production of potatoes, onions, tomatoes and green beans. According to a study conducted jointly by ACDI and NCBA, it was concluded that Egypt has the capability to increase exports of these crops substantially, and Egypt also has the ability to export a wide variety of an even wider variety of fresh fruits and vegetables, including strawberries, miniature vegetables and orchard crops.

Potential demand for fresh fruits and vegetables in both the EC and the Middle East is extensive. The EC imports almost \$5 billion dollars of fresh fruits and vegetables each year. Egypt's market share is only about 1 percent. The market demand for a several fold increase in Egyptian exports to the EC clearly exists. Inadequate market demand will not pose a constraint on increased exports through the medium term, if Egyptian producers can deliver quality products on a reliable basis. It is estimated that the Middle East imports almost \$800 million of fresh fruits and vegetables. Egypt now has a market share of about 8 percent. A several fold increase to the Middle East is also possible.

The ACDI and NCBA study, however, recommends that Egypt focus on the EC winter market. The Middle East market is relatively small, and supplies from other sources as well as demand fluctuate sharply. This is not the case for the EC. Moreover, the authors also explain that if Egypt can meet the quality and reliability requirements of the EC, they will also be able to compete effectively in the Middle East. A sharply increased Middle East market share will be a bonus to efforts to compete in the EC market, while success in the Middle East would not necessarily have positive spillover effects in the EC due the current traditional nature of trade within the region.

The ACDI/NCBA team identified three major areas for potential export growth, characterized according to different transportation systems. They include:

-- Bulk Ocean Freight/Low Perishable Commodities: Potatoes, onions and garlic. (Estimated Potential Increase: 65,000 tons).

-- Air Freight/High Value Commodities: Fine green beans, strawberries, specialty tomatoes and other specialty vegetables. (Estimated Potential Increase: 5000 tons).

-- Containerized Ocean Freight/High Volume: Green beans, artichokes, tomatoes, cucumbers, melons, and eventually orchard crops. (Estimated Potential Increase: 10,000 tons).

B. Constraint Analysis

The following analysis will identify and explain potential constraints to increased growth in the targeted potential product areas. In addition to identifying obstacles that would limit the effectiveness of proactive export promotion services, this analysis will also identify those areas in which the project should focus its activities to be most effective. Three levels of constraints will be analyzed, including policy and environmental, infrastructure, and industry and firm-level constraints.

Policy and Environmental Constraints

Although some important policy constraints remain in place, especially those affecting exporters' reliable access to quality inputs at world market prices, none of the policy or environmental constraints are so great that they would severely impair the effectiveness of proactive export promotion activities in the areas identified, except possibly footwear. Rather than eliminating the potential for increased exports, the policy environment restricts the rate of growth by raising costs and reducing Egyptian firms' international competitiveness and by inhibiting their ability to produce quality products in a reliable manner.

This claim is supported the fact that exports in the potential target areas have increased sharply over the past five years, even though the policy environment was worse during this period than it is now. In addition, exporters interviewed in the potential target areas reported that they expect to increase their export sales by between 10 to 100 percent over the next five years, even if policy constraints are not eliminated.

Policy constraints are tightly binding in other light manufacturing areas where Egypt should be able to compete. With Egypt's extremely low-cost labor and low transport costs and times to both the EC and Middle East markets, combined with preferential market access, Egypt should be highly competitive in a wide variety of labor-intensive operations, such as toys, electronics and the light engineering products. However, due to the poorly functioning programs that are designed to allow producers to obtain imported inputs at world market prices (duty-drawback, temporary admission and free-zones), Egyptian producers cannot compete in product areas where the majority of inputs are imported. Accordingly, until systems are implemented that assure exporters of rapid access to imported inputs at world market prices, Egyptian private sector exports will be constrained to products manufactured mostly with inputs which are produced locally at competitive prices. All of the potential target areas utilize primarily local inputs.

Policy constraints for potential target areas. For potential target products, the most serious policy constraints are those which result in unreliable access to high quality domestic and imported inputs at competitive prices. Although still serious, the constraints are less restrictive than they were several years ago. Policies restrict access to quality inputs in three primary ways: (1) State control over the cotton processing sector; (2) poorly functioning duty-drawback and temporary admission programs; and (3) non-tariff barriers, including import bans.

The monopoly of state enterprises of the cotton processing industry and the lack of competition among these firms results in a situation where garment and carpet producers cannot be assured of receiving sufficiently high quality yarn or textiles in a timely manner or at a guaranteed price. Due to policy changes initiated in 1989, the local private sector has been able buy much greater quantities of export quality yarn. However, due to poor production techniques and insufficient quality control, quality has not improved. Garment exporters often have to return half of their yarn shipments to the mills because they do not meet quality standards.

The unreliability of supply of quality yarn and textiles increases the costs for Egyptian exporters to assure quality standards, as they must stock large amounts of yarn, and also decreases their ability to meet the tight delivery standards required by importers. In addition, state textile firms change prices with little or no warning, and in unison. As a result, costs to producers change sharply, making it difficult to plan and operate on the small margins which are the norm in the international garment industry. In addition, as there is no price competition between the state run mills, there is no market discipline imposed on producers. The World Bank is currently developing a program to reform the cotton processing industry that progressively liberalizes the sector, leading to market-determination of prices and entry into the sector by private firms. It is recommended that AID support the Bank's efforts in this area, and encourage a rapid shift to a competitive, market-based cotton processing industry, including privatization.

The poorly functioning duty-drawback and temporary admission system limits growth. Even for industries that are already exporting, the current duty-drawback and temporary admission system increases costs and limits access to higher quality imported inputs, as well as unfairly increasing the tax burden of the consumption tax. The primary problems with current duty-drawback system is one of delays in receiving the duty and consumption tax reimbursement, and the refusal of authorities to provide complete reimbursement. In addition, there is no functioning system for indirect exporters. The temporary admission system requires a bank guarantee for imported merchandise. The interest required for the guarantee increases costs, and makes access to the program

problematic for smaller, lower-capitalized firms. It is recommended that the design and implementation of an effective duty-drawback and temporary admission program be an important part of the proposed AID Trade Sector Reform Program.

Import bans and bureaucratic controls on the importation of goods increase costs and for some industries may eliminate export possibilities to high quality standard markets. For fresh fruits and vegetable producers, controls on the importation of chemical inputs complicates and delays access to specialized fertilizers and pesticides.

Other policies also more generally limit export growth by both reducing the incentives to export and by creating obstacles to the establishment and operation of private sector firms. High import barriers continue to make it more profitable for many firms to concentrate on the less competitive local market than to direct resources to export markets. For example, several of the higher quality local garment manufacturers report that profit margins are much greater in the upper-end of the local market than in export markets. They export only because of the limited size of the local market. For these firms, the local market is still their primary concern, and the market upon which they base their corporate strategies. This policy constraint does not limit exports directly, but works to shift resources away from export activities.

Cumbersome investment and company laws result in lengthy delays in the establishment of businesses and impose unnecessary hurdles that deter private investment. For established firms which have learned how to deal with these regulations, these laws are relatively minor obstacles. However, for new firms, and especially joint-ventures with foreign partners, these laws are important obstacles. It is expected that as part of the economic reform program of the Egyptian government, a new company law will be established and implemented by 1993. It is hoped that the new law will create a simpler, more transparent and more effective legal and regulatory climate for the establishment and operations of new businesses.

Poor Reputation of Egyptian Products. A major environmental constraint to the expansion of Egyptian exports, even in areas with demonstrated high potential, is the deserved poor reputation for poor or inconsistent quality of Egyptian products and unreliability in meeting agreed delivery schedules. Interviews with importers in 1989 conducted by the Carana Corporation, as well as discussions with exporters in Egypt, reveal that many importers in the EC have had very bad experiences with Egyptian orders. Both in the garment and fruits and vegetable industries, importers in Europe report that the products delivered failed to meet even minimum quality standards, and arrived far beyond the agreed delivery dates. As a result, many importers report that they are not interested in sourcing products from Egypt.

This reputation increases the difficulty for quality producers to convince buyers of their capabilities and to win orders. Egyptian producers, because of this reputation, start at a substantial disadvantage vis-a-vis their competitors. Several exporters reported in interviews that after several months of discussions with buyers and apparently reaching agreement on an order, European importers cut off discussions because they were not convinced that the Egyptian producer would be able to meet European quality standards. Fruit and vegetable exporters report that buyers in Europe and the Gulf ask that no mention of Egypt be included on the packaging.

This poor reputation is due in part to policy constraints that limit access to quality inputs, but primarily it is a function of the low quality standards of the local market, and the poor production efficiency and insufficient quality control mechanisms at the firm level. While this quality is sufficient for Eastern European and Soviet markets, where standards are equally low, it is not acceptable in competitive markets such as the EC or the Gulf.

Infrastructure Constraints

For fresh fruits and vegetables, the lack of appropriate transport and processing facilities represents a problem, but is not a binding constraint. Currently, there is an insufficient level of air transport to meet the potential demand for high value-added fresh fruits and vegetables exports to Europe. Low volumes and lack of backhaul opportunities raise prices. However, current exporters have successfully arranged contracts with air freight companies or have acquired their own planes. Once volumes increase, the transportation problem will gradually abate. Transport is one economic activity in which supply adjusts relatively quickly to increases in demand if the basic infrastructure is in place.

The lack of processing facilities currently restricts Egypt's ability to provide fresh fruits and vegetables that consistently meet European quality standards. These facilities should be developed by the larger exporters and producers from their own investment funds, because they will earn increased profits to be earned from these facilities. The organization of transport arrangements that will ensure access to export markets at reasonable costs would help to minimize the risk of new investments.

For light industry exports, infrastructure constraints are much more modest. For most exporters, transport to markets is sufficient and utilities work adequately and are priced competitively. In three relatively minor areas infrastructure is lacking.

Lack of direct sea transport to the Gulf raises costs and delivery times. Experience from other developing countries have shown that shippers respond rapidly to increased demand. Accordingly, if exports increase, it is expected that direct links will be established.

The supply of electricity is unreliable in some remote areas, but most exporters are not situated in these locations.

A lack of testing facilities and Egyptian specification standards constrains the ability of Egyptian firms to export light engineering products. However, since the current lack of a well functioning duty-drawback or exemption program severely limits the export of these products, this is not yet a binding constraint. When a well functioning system is in place, then the need to establish more and better testing facilities, as well as product standards will become a higher priority.

Firm-level Constraints

Light Industry: These types of constraints are the primary factors limiting increased growth in the short to medium term. These constraints are due largely to the extremely limited export experience of private sector firms, and the legacy of closed and non-competitive domestic markets. In general, Egyptian private sector firms, even in the potential target industries, face the following problems.

- (1) They lack detailed information on and contacts with hard currency and high quality standard markets;
- (2) They are inexperienced in export marketing techniques;
- (3) They utilize inefficient production techniques and lack adequate quality control techniques;
- (4) They have weak management skills;
- (5) Production workers have low skill levels and consequently low productivity.

These types of constraints are similar across product lines but the degree of problems is largely a function of each industry's structure and degree of exporting experience. Some specific constraints identified for specific product groups are noted below:

Garments: As can be seen in Table 3 above, garments represent the only product group within manufacturing in which Egypt has any track record of successful exporting. The primary constraint for

Egyptian apparel exporters is lack of adequate quality control. Traditionally, Egyptian garment exports have been at the low end of the quality scale, and many sales have been to Eastern Europe, where quality requirements are low. For example, consumers complain that garments tend to fall apart after several washings, that colors fade, and that stitching materials are below international standards. An additional constraint to exports is relatively small scale operations. Few firms have the capability of filling the large orders typically required of major buyers (e.g., 1,000 dozen shirts). Another often cited constraint is lack of information on markets and market requirements. Up-to-date information on fashion trends is critically important in the apparel industry.

Leather products: Egypt exported only \$2.3 million in leather products to Europe in 1989/90, and only \$2.4 million to the Middle East over the same period. Again, quality control is the largest constraint identified. Part of this is due to the relatively poor quality of available raw materials, but in addition, local production has been geared toward domestic markets which place a higher priority on price than on quality.

Carpets: As noted above, Egypt's exports of carpets are produced by a handful of larger firms that produce machine-made products. Therefore, Egypt lacks depth in the number of firms capable of producing export-quality carpets.

Furniture: A key problem for furniture exporters is the dependence of firms on traditional Egyptian designs. This in turn limits the market size for current output. To expand into new product areas, firms will need to invest in design, production machinery, and marketing. The need for imported wood also represents a constraint, since these inputs are relatively expensive and face import barriers.

Housewares: Most of Egypt's exports of ceramics and glassware has been directed at Middle East markets, focusing on low cost, traditional design products. Producing goods that meet European standards will require new machinery, altered designs, and greater breakage tolerances.

Footwear: Since imports of leather are banned, and since the local tanning industry does not produce high quality leather uppers, Egyptian exports of footwear are effectively limited to Middle Eastern markets.

Prepared foods: Almost all food preparation activities in Egypt are focused on internal markets and tastes. These tastes differ significantly from those in Europe. Egyptian producers also face a constraint of limited and variable availability of agricultural inputs, thus reducing the viability of year-round production facilities.

The constraints noted above relate to specific product groups. However, in a recent constraint survey conducted by TI/FI, producers in all product categories offered a high degree of consensus on the following constraints, listed in descending order of priority. In other words, private sector firms in all product areas face a similar set of problems.

- o Bureaucracy;
- o Lack of information on international markets;
- o Problems with the duty drawback system;
- o Transportation problems, such as the increasing cost of air freight and scarcity of shipping containers;
- o Continuous changes in government regulations;
- o The dual exchange rate system;
- o Lack of export incentives;
- o The new ceiling on bank credits;
- o Rising prices of machinery and raw materials;
- o Poor quality of domestic inputs;
- o High import tariffs in overseas markets; and
- o The Egyptian labor law.

All of these constraints have been present at one time or another in all successful exporting countries such as Taiwan, South Korea or Brazil. Experience has shown that efforts to increase exports act as a catalyst to reduce constraints, since governments place a high priority on foreign exchange earnings derived from exports.

In general, in all of the potential target product groups, the industry is divided into three different types of firms. This industrial structure provides important inferences for the design of the Export Enterprise Development project.

On the top of each product group are a limited number of "export-ready" firms which are larger (with 100 or more employees), use relatively modern production facilities and have significant export experience. Some of these firms have agreements with foreign equipment suppliers or with their foreign buyers to provide expertise on production efficiency and quality control. These firms generally can meet international quality standards, and with

export marketing assistance could increase exports significantly.

Although these firms are advanced by Egyptian standards, by international standards their production efficiency, management and export marketing skills are weak. For these firms, the most critical element of an export promotion program would be export marketing assistance, including the provision of information, and assistance in establishing contact with foreign buyers. Most of these firms have an export manager, but in many cases the individual speaks no European language fluently, indicating the weakness of their export marketing capabilities. In addition, assistance to improve production efficiency and quality control is also needed in order to improve their ability to compete.

Of the potential target industries, only in the garment industry are there clearly a significant number of firms in this export ready level. In the garment industry, there are between 25 and 40 firms that can produce internationally acceptable garments on a reliable basis.¹ USIPO has 26 of the larger firms in its exporter directory. In other industries, the number of firms in this group are more limited. USIPO estimates that there are about 15 "export ready" firms in the housewares sector, which includes ceramic dishes, glassware and tableware, but the average reported sales levels of the housewares firms is about a tenth of that of the garment firms. The only other industries with potentially more than 10 export ready firms are in the leather products industry, if ones includes both leather and garments, and in flatgoods. The carpet and processed foods industries both have only about 4 to 6 firms in this group.

The second tier is a much larger number of smaller companies with limited export experience. These firms tend to use less modern production methods and have great difficulty in consistently meeting international quality standards. Without assistance to overcome production and quality control controls, these firms cannot effectively utilize export marketing assistance or information. In the garment sector there are probably 50 to 100 firms at this level, and there are 10 to 20 such firms in each of the other potential industry sectors. With intensive firm-level technical assistance, a substantial portion of the more motivated firms in this level could achieve adequate production efficiency and quality standards to begin to compete effectively in the EC and Middle East markets.

¹ Estimate of firms in export-ready group based on conversations of industry observers and an IESC V.E. report #19581, "Apparel Sector Egypt: The Next Step," written by Peter S. de Lemos.

For most of the potential target industries there is a third tier of private firms which are small workshops operating at low-levels of production efficiency and either low or highly inconsistent quality. The firm-level export constraints for firms at this level are extremely high, and therefore these companies are not appropriate targets for proactive export promotion.

Fresh Fruit and Vegetables: Egyptian fruit and vegetable exports are produced and sold by two different systems with very different sets of firm-level constraints. The two systems are the traditional system, which includes the parastatal/cooperative system for potatoes and private exporters who essentially buy surplus production for sale to foreign markets, and a new emerging class of producers and exporters which grow and/or export products targeted specifically to the EC winter market for fruits and vegetables.

Currently, most fresh fruit and vegetable exports are produced and exported through the traditional export system. According to the ACDI/NCBA study, exporters in this system are characterized by an avoidance of risk, avoidance of market competition, and reliance on simple and known technologies. This system has failed to lead to diversification into new markets, not adopted new technologies, saturated its traditional markets, and created for Egypt a reputation in both the EC and the Middle East as an inconsistent and poor quality exporter. Accordingly, the ACDI/NCBA study concludes that the potential for increased exports through the traditional system is extremely low.

The new agricultural entrepreneurs include New Land corporate farms and cooperatives, private exporters and integrated agricultural service companies. Unlike exporters in the traditional system, leaders in this group have demonstrated a willingness to compete on the basis of quality and price, take risks, invest in new facilities and infrastructure, learn and adopt new technologies and manage complex businesses. Based on interviews with "modern exporters," analysis of the industry as well as the ACDI/NCBA study, the principal constraints for increased exports from this group are:

- Insufficient information on EC markets, especially regarding prices and demand trends, and on marketing connections;
- Relatively little technical experience or expertise, since many producers have been involved in farming for only three to five years;
- A limited production base. If fresh fruit and vegetable exports are to expand rapidly, farmers working under contract to producer/exporters or exporters must be included into the "modern" export system;
- A lack of industry organization. To overcome some of the most important constraints, "modern" exporters need to have some collective organization.

Project Resources to Address Constraints

The proposed project will focus primarily on firm-level constraints, given that policy constraints to increased exports are will be addressed in other Mission initiatives, and because the existing policy environment will not severely limit the effectiveness of proactive export promotion. It is expected that the most limiting policy constraints, specifically the move to a competitive cotton processing and textile industry and the implementation of an efficient and effective duty-drawback and exemption program, will be a high priority in this reform program.

First Tier Program: Initial Focus on "Export Ready" Firms and Information Services: Given the limited resources available under this project, the limited Egyptian experience in export promotion activities and the focus on rapidly increasing exports, it is recommended that the project focus its services to the needs of the "export ready" firms. These firms can most rapidly and effectively utilize market and technical information and brokering services, which will form the core of the project. Interviews with executives from these firms indicated that market information and assistance in making contact with potential customers would be the most valuable services that could be provided by a private export promotion institution. These firms also need technical assistance and training to improve their production efficiency, quality control and management skills.

For light industry this initial focus on "Export Ready Firms" limits the possible industries that can be targeted. In order to have a sufficient number of potential clients for these services, the project will initially have to focus on the garment industry. In addition to the garment industry, only leather products or housewares provide potentially enough firms that can use these information intensive services. Other industries could be added to

targeted industries as more "export ready" firms develop, or if policy constraints such as the ban on leather imports for footwear, or an effective duty-drawback and exemption program is implemented for electronics.

For fresh fruits and vegetables, it is also recommended that the project focus initially on assisting "export ready" firms, i.e., the "modern" export sector. In addition to market information, these firms also have a great need for technical assistance. These firms generally have limited experience in export-oriented production, and unlike the light industry sector where foreign buyers often provide production assistance, this is not the case with fresh fruits and vegetables.

Second Tier Program: Technical Assistance Focus: In order to broaden the scope of industries and firms engaged in successful exporting, a second level of proactive export promotion activities focusing on technical assistance is recommended. Project-funded assistance will be used for this activity. In addition, USIPO will coordinate TA to Tier 2 firms provided by USAID and other donor projects. Tier 2 firms will also be provided marketing and technical assistance from Tier 1 firms, through supplier relationships, subcontracting and other forms of backward linkage.

For light industry this second stage program would focus on smaller firms with limited export experience, but with potential to become successful exporters. This program would provide firm-specific intensive technical assistance, helping the firm through all aspects of the export process, from production and quality control to the development of an export marketing strategy to the negotiation of an export contract. With this assistance, it is expected that these second "tier" firms could become successful exporters, and progressively important clients of the first stage program. This second stage program could work in industries with few "export ready" firms.

For the fruits and vegetables sector, this second stage program would initially work with the same "modern" export sector to help firms develop the capabilities to provide technical assistance to contract farmers in order to broaden the supply base for modern export activities. This second stage technical assistance-focused project would also provide assistance to the modern export sector to develop the necessary processing and packaging facilities to allow firms to provide the reliable quality required by the EC market. In addition, a limited amount of project resources will also be allocated to finance direct assistance to Tier 2 farmer producers in the following illustrative activities: strengthening importer-exporter market linkages; improving production technologies and crop varieties; developing lower cost transportation alternatives; and improving post-harvest handling.

Tier 2 firms in general will also benefit directly from the project, since activities such as group seminars and training and general marketing will be available to Tier 2 companies. In addition, the project will actively pursue "backward linkage" opportunities involving smaller companies. For example, in the agricultural area small producers could develop supplier relationships to Tier 1 exporters, and hence receive extension services (assistance on quality control, seed varieties, picking and handling, packing, etc.) from the Tier 1 firms. Similarly, subcontracting and supplier relationships offer numerous opportunities in the light manufacturing sector.

C. Implications of the Lautenberg Amendment

During the project's early stage of development, a concern was raised within the Mission regarding the implications of the Lautenberg Amendment prohibitions for project activities. To address this concern, a series of assessments were carried out by both Mission staff and the design team. A summary of findings reached and recommendations made is presented below.

Briefly stated, Section 559 of the Foreign Assistance Act, the "Lautenberg Amendment," prohibits the use of AID funds to finance activities that are intended specifically or primarily to assist in the establishment of facilities which manufacture import-sensitive commodities for export either to the United States or to third countries in direct competition with U.S. exports to such third countries. More specifically, the Lautenberg Amendment prohibits the use of AID funds:

"(1) to procure directly feasibility studies or prefeasibility studies for, or project profiles of potential investment in, the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of import-sensitive articles . . . ; or

(2) to assist directly in the establishment of facilities specifically designed for the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of import-sensitive articles . . ."

For the purpose of the Lautenberg Amendment, "import sensitive" commodities include textiles and apparel, footwear, handbags, luggage, leather flatgoods, work gloves, and leather wearing apparel.

The proposed Export Enterprise Development Project is designed to increase Egyptian private sector exports in two sectors, fresh fruit (non-citrus) and light manufactures. Analysis of potential

industry targets in the light manufacturing sector includes three industries that produce what can be deemed import sensitive goods - - garments, housewares (flatware) and leather goods. The central issue is whether or not proposed activities for these three industries under the project fall within the restrictions set forth by the Lautenberg Amendment.

In a February 7 memorandum, the Legal Department of USAID Egypt provided an opinion regarding the appropriateness of providing financing to be used for USIPO's export promotion activities in view of the restrictions of the Lautenberg Amendment. In this opinion, it was found ". . . that USIPO is not presently engaging in activities prohibited under Lautenberg." More specifically, USIPO's activities were not intended specifically and primarily to assist in the establishment of facilities for the manufacture of sensitive articles for export purposes. Accordingly, AID funding of such activities are not prohibited.

To provide experientially-based guidance, the project design team was asked to examine how this issue is addressed in similar projects in other countries. Examples of analogous projects are shown on the following chart.

**TREATMENT OF LAUTENBERG AMENDMENT SENSITIVE AREAS (LASAs) IN
AID NON-AGRICULTURAL EXPORT PROMOTION PROJECTS**

<u>Program</u>	<u>Target LASAs</u>	<u>T.A. to LASAs</u>	<u>CBI</u>
Costa Rica: CINDE/PIE	assembly operations including apparel	no(a)	yes
Dominican Republic IPC	garments and shoes	yes(b)	yes
El Salvador IESC	no	yes	yes
FUSADES	garments--assembly	yes	yes
Guatemala: Non-traditional exports	garments--assembly	no	yes
Haiti: PROMINEX	garments--assembly	no	yes
Honduras: FIDE	no	no	yes
Jamaica: Technical Consultations & Training	garments-assembly	yes	yes
Morocco: TIP Program	no	yes(b)	no
Indonesia: BKPM	no	no	no

Source: SRI International

(a) TA provided by a non-AID funded part of implementing agency.

(b) TA provided by IESC.

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The projects examined include a mixture of (1) export promotion, (2) investment promotion and (3) export and investment promotion focuses. The principal points to be drawn from this review are as follows:

- o Some of the projects target "import sensitive" industries, and some do not;
- o Most projects of this kind fall within the Central American and Caribbean area, where countries enjoy benefits under the Caribbean Basin Initiative (CBI). One such benefit is that activities related to the production of "Section 807" goods (assembled products such as garments using U.S.-produced components) are not subject to Lautenberg Amendment restrictions. However, it is not clear whether or not these projects assist "import sensitive" industries outside of Section 807 production; and
- o There is a relatively even distribution of projects which (a) provide technical assistance to firms in import sensitive areas, and (b) do not provide such assistance.

The design team also examined a sample of documents related to similar projects that address the Lautenberg Amendment issue. The typical method used is the inclusion of a clause or covenant in grants, cooperative agreements, etc., stating that the proposed project will not finance activities which are in violation of the restrictions set forth by the Lautenberg Amendment.

A summary of legal opinion on the Lautenberg Amendment prepared by the Office of the General Counsel of AID on June 8, 1987, states that Amendment does not prohibit financing that aids the manufacture of articles:

"(a) primarily for the host country's domestic market, or

(b) for export to third countries to which the United States does not export statistically significant quantities of articles which are similar (considering factors such as fabrication, function, appearance or price)."

The summary goes on to state that ". . . The Amendment prohibits "direct," but not "indirect," assistance for the prohibited activities."

A statistical analysis of U.S. exports to the EC in categories targeted for assistance under the project yielded the finding that U.S. sales of products in these categories represent a relatively minor share of total U.S. exports to the EC. The following chart provides the figures. The chart shows U.S. exports to the European

Community in 1989 in each of the product categories considered for inclusion in the EED project. The first column indicates the two digit industry classification. The precise definition and products included for each product group are given in the pages immediately following the chart.

The second column shows U.S. exports to the EC in terms of European Currency Units (ECUs). These figures are translated into U.S. dollars in the third column. The fourth column calculates the percentage share of U.S. exports in each two-digit category in total U.S. exports to the EC.

One can see from the chart that for the items shown, which with the exception of processed food are labor-intensive manufactures, these exports as a percentage of total U.S. exports to Europe are very small. All are well below one percent of the total. Except for furniture and two categories of housewares, the categories represent only one tenth of one percent of U.S. exports. This can be explained on economic grounds -- the United States generally does not export labor intensive consumer goods, but rather capital and technology intensive products such as computers, aircraft and other transportation equipment, chemicals, machinery, and agricultural products.

While the share of U.S. exports in the industry categories targeted under the project is small, the absolute value of these sales is relatively high, due to the massive volume of U.S. exports to Europe (about \$100 billion). For example, U.S. producers sold about \$217 million in apparel to the EC, and nearly \$760 million in housewares in the categories specified. The total value of U.S. exports to the EC in these categories is about \$1,690 million.

It is projected that the EED project will yield an increase of about \$74 million in light manufactures exports from Egypt over a period of five years. On average, this means about \$15 million per year in all product groups combined. This \$15 million represents less than one percent of total U.S. exports to the EC in these categories, and only about one and a half ten thousandths (one and a half hundredths of one percent) of total U.S. exports to the EC. This would appear to be statistically insignificant.

US Exports to the EC 1989

Product	2-digit	EUR ('000)	US\$ ('000)	% of Total Exports to EC	4-digit	EUR ('000)	US\$ ('000)	% of EXP
Processed food	16	90,004	97,830	0.11%				
	17	24,798	26,954	0.03%				
	18	2,226	2,420	0.00%				
	19	17,433	18,949	0.02%				
	20	95,114	103,385	0.11%				
	21	41,141	44,718	0.05%				
Leather goods	42	47,799	51,955	0.06%	4202	18,184	19,765	0.02%
					4203	18,132	19,709	0.02%
Carpets	57	50,617	55,018	0.06%				
Apparel	61	93,215	101,321	0.11%				
	62	107,381	116,718	0.13%				
Footwear	64	89,999	97,825	0.11%				
Housewares	69	64,653	70,275	0.08%	6910	-	-	
					6911	2,680	2,913	0.00%
					6912	1,244	1,352	0.00%
					6913	2,929	3,184	0.00%
	70	308,470	335,293	0.37%	7013	9,032	9,817	0.01%
	82	324,867	353,116	0.39%	8214	2,061	2,240	0.00%
					8215	-	-	
Furniture	94	196,159	213,216	0.23%	9401	60,325	65,571	0.07%
					9402	14,775	16,060	0.02%
					9403	66,685	72,484	0.08%

The following list provides the specific definitions of the export categories identified on the preceding page.

HARMONIZED SCHEDULE OF THE UNITED STATES

<u>Heading/ Subheading</u>	<u>Article Description</u>
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates
17	Sugars and Sugar confectionery
18	Cocoa and cocoa preparations
19	Preparation of cereals, flour, starch or milk; bakers' wares
20	Preparations of vegetables, fruit, nuts, or other parts of plants
21	Miscellaneous edible preparations

42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)
4202	Trunks, suitcases, vanity cases, attache cases, briefcases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; traveling bags, toiletry bags, knapsacks and backpacks, handbags, shopping bags, wallets, purses, map cases, cigarette cases, tobacco pouches, tool bags, sport bags, bottle cases, of leather or of composition leather, of plastic sheeting, of textile materials, of vulcanized fiber or of paper-board, or wholly or mainly covered with such materials
4203	Articles of apparel and clothing accessories, of leather or of composition leather

57	Carpets and other textile floor covers

61	Articles of apparel and clothing accessories, knitted or crocheted

- 62 **Articles of apparel and clothing accessories, not knitted or crocheted**
-
- 64 **Footwear, gaiters and the like; parts of such articles**
-
- 69 **Ceramic products**
- 6910 **Ceramic sinks, washbasins, washbasin pedestals, baths, bidets, water closet bowls, flush tanks, urinals and similar sanitary fixtures**
- 6911 **Tableware, kitchenware, other household articles and toilet articles, of porcelain or china**
- 6912 **Ceramic tableware, kitchenware, other household articles and toilet articles, other than of porcelain or china**
- 6913 **Statuettes and other ornamental ceramic articles**
- 70 **Glass and glassware**
- 7013 **Glassware of a kind used for table, kitchen, toilet, office, or indoor decoration**
- 82 **Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal**
- 8214 **Other articles of cutlery (for example, hair clippers, butchers' or kitchen cleavers, chopping or mincing knives, paper knives); manicure or pedicure sets and instruments (including nail files); base metal parts thereof**
- 8215 **Spoons, forks, ladles, skimmers, cake-servers, fish-knives, butter-knives, and similar kitchen or tableware; and base metal parts thereof**
-
- 94 **Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated nameplates and the like; prefabricated buildings**
- 9401 **Seats, whether of not convertible into beds, and parts thereof**

9/1

- 9402 Medical, surgical, dental or veterinary furniture; barbers' chairs, having rotating as well as both reclining and elevating movements; parts of the foregoing articles
- 9403 Other furniture and parts thereof

A review of the detailed strategy for the Export Enterprise Development Project generated the following conclusions regarding the Lautenberg Amendment:

- o The proactive export promotion activities of the project do not assist directly in the establishment of facilities designed for the manufacture of import sensitive goods. The project activities relate to existing producers and facilities, not to new facilities;
- o The identification of garments and leather products as target industries for the project was made on the basis of an objective analysis of Egypt's development potential and needs;
- o The export promotion activities of the project are focused on European and Middle Eastern markets, not U.S. markets;
- o The quality and price of the specific import sensitive products involved in the project are highly likely to fall well below the quality and price of comparable products produced and exported by U.S. firms;
- o As in the past, the investment feasibility study component of the project is restricted to use by U.S. firms, and therefore will assist U.S. firms rather than be used in competition with U.S. firms; and
- o To the extent that Lautenberg Amendment-restricted activities might be considered by USIPO in the future, USIPO is not prohibited from conducting such activities, so long as non-AID funding (e.g., EC program funding, fees for services, etc.) is used to finance the activities.

These conclusions, along with the points raised earlier in this section, confirm that the proposed project is not in violation of the Lautenberg Amendment. Nevertheless, the following actions are recommended for inclusion in the project design in order to fully and explicitly take the Lautenberg Amendment restrictions into account:

1. The following covenant, or some variation thereof, should be included in the Cooperative Agreement with JBC/USIPO:

"USIPO will not use AID funds to finance activities which are expended (1) to procure directly feasibility studies or prefeasibility studies for, or project profiles of potential investment in, the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of import-sensitive articles as defined by section 503(c)(1)(A) and (E) of the Trade Act of 1974 (19 U.S.C. 2463(c)(1)(A) and (E)); or (2) to assist directly in the establishment of facilities specifically designed for the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of import-sensitive articles as defined above."

2. In the course of reviewing and approving the annual work plans prepared by USIPO, the USAID Mission should examine the plans to identify any possible violations of the Lautenberg Amendment, and to reject AID funding of any such activity.
3. If USIPO seeks to undertake activities that are in violation of the Lautenberg Amendment, USIPO should obtain and fund any such activities from non-AID sources of finance. All initiatives even contemplated to fall into this category generally represent "Tier II" initiatives, which the proposed project will not finance.
4. USIPO will administer an ongoing Lautenberg Amendment monitoring and certification program. USIPO management and the TA contractor will receive periodic briefings from the USAID Legal Office on activities that can and cannot be undertaken. USIPO management and the TA contractor in turn will provide briefings to the USIPO professional staff. On an annual basis, the USIPO management and staff and the long-term TA advisors will sign statements certifying that project-funded activities carried out by each signatory have not been in violation of the Lautenberg Amendment. Failure to sign the statements or proven violations to them will result in serious punitive actions, and repeated violations will result in dismissal and/or legal action.

ANNEX D

INSTITUTIONAL ANALYSIS

To support the design of the Export Enterprise Development Project, an institutional analysis was conducted to reach determinations on (1) the most appropriate organization to implement the project, (2) the institutional requirements of the organization selected, (3) a proposed training program for USIPO, (4) a long-term funding strategy for USIPO, and (5) a scope of work for the technical assistance contractor. This Annex presents the findings of that analysis.

A. Choice of Implementing Institution

The primary objective of the Export Enterprise Development Project is to promote private sector exports from Egypt efficiently and on a cost-effective basis. A secondary objective is to conduct limited investment promotion activities. The range of possible candidates to direct and operate the range of needed promotional activities is limited.

Essentially, only three organizations in Egypt have experience in export promotion: the Egypt Export Development Center, a government institution staffed by career civil servants; the Export Development Bank of Egypt, a bank specializing in export finance which provides a limited range of other export promotion services; and USIPO, the USAID-sponsored export and investment institution that has over the past year concentrated its activities on export promotion. The Federation of Egyptian Industry also serves as the host institution for an export promotion program operated by the German-Arab Chamber of Commerce. However, the Federation has a limited role in the implementation of the program, and therefore has really no substantive experience in export promotion.

Apart from selecting one of these institutions with experience to be the implementing agency of the project, two other alternatives were explored. One option would be to develop an export promotion capability within an existing institution, and another would be to establish an entirely new institution.

Regarding the first option of using an existing but "inexperienced" institution, the alternatives considered were the public General Authority for Free Zones and Investment (GAFI) and a range of private business associations such as the Egyptian Businessmen's Association and the U.S.-Egypt Chamber of Commerce. GAFI was the original implementing agency for the USAID Private

Sector Feasibility Studies project (No. 263-0112). A recent evaluation of this project concluded that the GAFI staff were more concerned about regulation than promotion; the organization was overly bureaucratic; and it lacked sufficient management, staff capacity and effective administrative procedures to implement the project effectively.

Private business associations in Egypt have limited experience in managing or providing a range of trade and investment related services. These associations can serve as effective partners in trade and investment promotion, but promotion will always be of secondary importance to their most important function of serving as a forum for business executives to communicate among one another and to express their joint concerns to the government. In addition, as the primary geographical targets of this project are Western Europe and Arab States, if the project were to be operated out of Chambers of Commerce, it would have to be partitioned amongst a group of the relevant joint Chambers. Management of a project which would be conducted by a large number of independent institutions would be extremely difficult. Moreover, apart from the German-Arab Chamber of Commerce, the other Chambers do not have any significant experience with export promotion activities apart from providing information on lists of importers.

The alternative to establish a new institution was also considered. Experience indicates, however, that implementing programs through already existing, credible organizations is a more effective and efficient way to achieve promotional results. A number of trade and investment programs such as FUSADES, CINDE, PDAP and the Business Center of Sri Lanka suffered long delays associated with institution building. Moreover, the project's objective of rapidly assisting private sector exporters suggests that the establishment of a new institution is not a viable option.

Given the institutional environment and experience of establishing new trade and investment institutions in other countries, the first choice is to utilize an organization with experience in export promotion. Of these, USIPO was found to be the most appropriate. Nevertheless, as discussed below, USIPO will have to be strengthened significantly to become an effective export promotion institution. The other institutions with export promotion experience were all found to be inappropriate for implementing the project.

The Egyptian Export Development Center (EEDC) is a government agency which is supposed to provide a similar scope of export promotion services as those proposed for this project. However, according to a broad range of sources of information collected, the EEDC has not been effective. It is a relatively large and bureaucratic organization staffed by civil servants,

few of whom have a professional understanding of export promotion or experience in the private sector. In interviews with Egyptian business executives, the EEDC was almost universally described as ineffective. Moreover, the EC, which operated its export promotion program through the EEDC, plans to terminate the project because of its dissatisfaction with the lack of procedural and managerial capabilities within the institution. (The project itself exceeded its export objectives, but this performance was achieved in spite of the role of the EEDC.)

The Export Development Bank of Egypt (EDBE), in addition to providing export financing services, also operates a trading company and an export information service. This latter service includes a library and a soon to be implemented computer system that will provide: (1) lists of importers; (2) information on exchange controls in export countries; (3) transportation data; and (4) lists of Egyptian exporters. The EDBE also sponsors seminars on export promotion methods, and has attempted to establish an Exporters' Club, which includes its clients, to provide a forum where exporters can discuss export issues. The Export Development Bank is considered to be the best source for export finance in Egypt, and its Chairman is recognized as being a champion of outward-oriented policy reform.

Through its extensive contact with exporters, the EDBE has excellent knowledge of Egypt's export capabilities and weaknesses. Nevertheless, it would not be an appropriate institution to implement the range of export promotion services required by this project. Most importantly, the EDBE's priority is banking, not providing other services to exporters. Accordingly, it is doubtful that the EDBE would devote the energies necessary to ensure that the project was being conducted effectively. An example of what could happen is demonstrated by its computerized information services which took almost four years to establish and are still not in operation. Secondly, the EDBE has no experience in the management or organization of technical assistance. Finally, as the EDBE competes with other banks in providing export financing services, it is likely that it would tend to direct its promotional services toward its clients, rather than toward exporters that are not clients.

While, the EDBE is not considered to be an appropriate choice to implement the proposed project, it should serve as an important partner. Not only can it help in the financing of exports and export-related investments, but its information services can be integrated with those of USAID project. Moreover, the bank can serve as important source of information on the needs and capabilities of the export sector. It is recommended that a senior EDBE bank official serve on the board of the USAID-supported institution.

There are a number of reasons for selecting USIPO to implement the project. USIPO is a small, private-sector organization. Experience from other developing countries has shown that this type of institution tends to be the most effective for export and investment promotion. Apart from a few Asian countries, where government agencies have demonstrated an ability to assist the private sector in a range of activities, in most countries government export promotion agencies tend to be ineffective and overly bureaucratic. The EEDC is an example of this tendency. Moreover, when promotion agencies become too large or are part of large institutions, their effectiveness also tends to deteriorate, since the size of the institution restricts the necessary flexibility and speed to react to market developments.

USIPO has over the past year and a half gained practical experience in export promotion activities. Although the institution needs assistance to design and implement more modern and systematic methods, USIPO has over the past year successfully promoted over \$1 million of Egyptian exports. Given the lack of professional experience and information resources, this success demonstrates the resourcefulness of USIPO staff. In addition, changes in personnel at the export promotion director level in early 1991 also complicated the implementation of export promotion activities.

USIPO staff have good foreign language skills. All the professional staff and most of the support staff are fluent in English, and two of the professional staff are fluent in French. These language skills are mandatory for export promotion activities. In addition, the staff all have backgrounds in the private sector. Senior management has extensive private sector marketing experience.

USIPO's management and oversight abilities have improved over the past two years. According to an evaluation of USIPO conducted by SRI International in November 1990, USAID and the USIPO Executive Board have with the concurrence of USIPO staff designed and implemented a series of management measures that have resulted in greater project focus, accountability and control. Similarly, USIPO has demonstrated its knowledge of and ability to implement USAID and internationally acceptable accounting procedures. USIPO passed a December 1990 USAID audit, which found only relatively minor faults in the USIPO's financial and accounting procedures.

B. USIPO Needs Assessment

As pointed out in the November 1990 Evaluation completed by SRI, prior to 1989 USIPO's weak performance can in large part be blamed on a very poor policy environment that was beyond its control. In addition, USIPO was hindered by a series of institutional shortcomings such as inappropriately experienced or motivated personnel, internal staff rivalries and personality clashes and an overall inadequate capacity to plan, manage and carry out effective promotion programs.

Since 1989 USIPO has shifted its overall focus, goals and implementation strategy from investment promotion to export promotion. Furthermore project management and oversight have improved markedly. In addition, new key personnel were recruited and the existing USIPO staff was restructured. A new Executive Director with previous business experience and an active promotion orientation was appointed. An export promotion director with significant marketing experience was also hired as well as two young but highly motivated export promotion specialists.

As stated in the November 1990 SRI Evaluation Report, early indications suggest that USIPO's export promotion activities have been relatively well planned and executed and are likely to continue. Nonetheless, USIPO's capacity is still seriously weak in the systematic planning of export promotion activities and the staff have limited knowledge about export promotion techniques. In addition, USIPO does not have an effective capacity to quickly access, analysis and disseminate much of the information that is essential to conduct effective export promotion, especially intelligence regarding foreign markets, accurate information of local production capabilities, and rapid tracking and following up on the large and growing number of export transactions. While the level of activity associated with USIPO's previous investment promotion mandate did not require a sophisticated MIS, such a system will be imperative to effectively support the new export promotion direction.

The proposed institutional development program is designed to effectively build on USIPO's existing core of capable professional staff and its improving performance and capacity during the past two years. The outside consultants will work with USIPO to design and install a planning and monitoring system for effectively managing a much larger export promotion program. The project financed consultants will design and carry out appropriate formal and informal training programs that effectively build on existing skills, without disrupting ongoing plans for export promotion activities and provide for a great deal of learning by actually carrying out export promotion activities by working along with the consultants. Furthermore the TA contractor will be required to furnish two long-term

advisors that will work as integral members of USIPO's management and operational team to provide USIPO with efficient day-to-day "hands on" assistance in the planning and implementation of a significantly increased level of proactive export promotion activities.

The organizational requirements identified by the project design team fall into several categories, as described below. The project's implementation plan should take each into account.

Management and Oversight: USIPO's export promotion activities need to be conducted in a more systematic manner. Program strategies should be developed according to clear project objectives, and annual work plans should be designed to achieve these goals. In addition to designing strategies and plans, management should be held responsible for the achievement of goals on a timely basis. For example, although a first draft of a 1991 work plan was completed in late 1990, it is not clear that the program was approved by the Executive Board, or that it is being implemented. Moreover, although export promotion has been a primary focus of USIPO for nearly a year, no target areas have been selected or marketing strategies been designed.

Part of this identified problem is caused by program shifts and uncertainties associated with USAID funding, but part is also due to the lack of experience of USIPO management in export promotion activities. In addition, the Board of Directors is not fully engaged in providing strategic guidance and oversight to the institution. Long-term technical assistance to provide guidance and training to local management will be required, as well as organizational changes to ensure that USIPO has the management and oversight capabilities necessary to implement effective proactive export promotion activities. Technical assistance and training components have been included to address project management needs.

Professional Skills: The current staff of USIPO have limited knowledge about export promotion techniques and the operation of information-based, proactive export promotion campaigns. Both training and long-term technical assistance, to direct export promotion activities initially and to provide on-the-job training to local staff, will be needed to address these shortcomings. A proposed training program for USIPO staff is described later in this Annex.

Staff Resources: No major change in current staffing levels should be needed to undertake the activities and programs envisioned under the EED project. With seven core professional staff and two long-term technical advisors, supplemented by occasional short-term technical assistance, no additional staff are required. However, as noted above, the development of professional skills will be required.

Management Information Systems: USIPO's MIS capabilities will have to be upgraded significantly. As export promotion is largely an information collection and dissemination service, an effective MIS design and maintenance structure is crucial to success. Currently, USIPO's MIS resources are inadequate. Information is almost exclusively stored in paper files, making retrieval a time-consuming and inefficient process. Moreover, the institution does not have access to much of the information that is necessary to conduct effective export promotion, especially intelligence regarding foreign markets.

A MIS needs assessment was prepared recently by KimPRO Inc. for USIPO and was based on the staff's expected needs for the institution. The project design team concurs with most of the MIS requirements identified in the study. However, since the study was conducted before the EED project design was completed, there are several areas which were not covered. These include a database on foreign markets which would maintain information on the size of markets, trends, market shares of competitors, buyers lists, etc. This information is usually purchased and then loaded into an existing MIS system, or can be accessed through an on-line system. Also, no assessment of the information system needed for promotional materials was included in the needs assessment. Most likely, off-the shelf desk-top publishing software can be utilized. It is not necessary to tie the latter into the proposed integrated system.

Although most needs are fully identified, the assessment's conclusions about the types and levels of systems required are duplicative and overly complex, which will result in excessive software development costs as well as potentially time consuming and wasteful administration of the system.

- o The number of different systems proposed, nine, seems excessive. For example, the agricultural product promotion and export promotion tracking data base and systems are exactly the same, and therefore, there is no need for two different systems.
- o Rather than tracking expenses by lead, expenses should be tracked by sector. Much of activities conducted by USIPO will be sectoral, such as promotional material, seminars or trade shows. Accordingly, it makes more sense to track expenses by sector.
- o To control against the introduction of computer viruses into the system, USIPO will also want to consider using work stations instead of a Local Area Network for the individual users. In Egypt, where much of the software available is pirated, computer viruses are a common problem. If work stations are not used, anti-viral software must be used rigorously to ensure that

computer viruses are not introduced into the Local Area Network.

Organizational Structure: Since the range of activities to be conducted by the new USIPO will broaden significantly under the EED project, some changes in its organizational structure will be necessary to ensure that the institution effectively implements these activities. There is no need, however, to alter the legal status under the Egypt-U.S. Joint Business Council.

The design team recommends that the name of the organization be changed to reflect (a) the focus on export promotion and (b) the fact that organization represents Egyptian exporters serving all markets. The name of the organization should be determined by its Board of Directors. Therefore, the design team makes no firm recommendations. However, a number of possibilities have been mentioned, including "ProEgypt," "EXPROEGYPT," "EXPRO," and "Private Export Promotion Council."

The Executive Director, who is responsible for the management and operations of the institution, will report to the Board of Directors. The Executive Director should present an annual work plan with clear performance objectives to the Board for its approval. A smaller, three-person Executive Committee of the Board of Directors should be formed and meet on a more regular, perhaps monthly basis, to oversee progress made towards fulfilling annual work plans. At least two of members of the Executive Committee should also sit on one of the sectoral Advisory Committees. The Executive Director will be held responsible for implementing these plans and meeting the objectives set by the Board.

The design team recommends that USIPO be governed by a seven person Board of Directors, consisting of the following:

- o A private sector member from the Joint Business Council, serving as Chairman of the Board of Directors;
- o A private sector member from the Agricultural Advisory Committee;
- o A private sector member from the Light Industry Advisory Committee;
- o Two additional private sector members;
- o A representative from the Ministry of International Cooperation (MIC); and
- o A representative from the General Authority for Investment and Free Zones (GAFI).

In addition, the Executive Director of USIPO and a representative from USAID will attend Board meetings on an ex officio basis. The design team recommends that new Board members be selected by the existing Board, rather than be chosen by the organizations identified. However, the new members will be bona fide members/representatives of the organizations specified. The members of the industry advisory committees and the Executive Committee will be determined by the USIPO Board of Directors.

The Agricultural and Light Industry Advisory Committees which have been provisionally established should be formally instituted. These committees would review annual work plans and strategies for each sector before the plans are presented to the Board of Directors, to ensure that the plans meet the needs of the sector. The sectoral promotion managers would also work closely with the Advisory Committees.

The Advisory Committees would generally advise USIPO on its sectoral activities and provide consistent input on whether the institution is meeting the export promotion needs of each sector. Members of these Committees would include a cross-section of representatives from private exporters in each sector. Each would also include at least one member of the Board of Directors, who would also sit on the Executive Committee. In addition to advising USIPO on its strategies and activities, these Committees would also operate as focal points for sectoral collective actions, such as grouping agricultural exporters for more assured and lower cost transport.

In the interim period during which the organization has the services of long-term technical advisors, it is suggested that these advisors report to the Executive Director.

Reflecting the different needs of the agricultural and light industry sectors and the central importance of information collection and dissemination in export promotion activities, it is recommended that the institution be organized into four functional units.

Two Export Promotion Managers, one for each sector. Each would be responsible for providing export promotion services to his or her sector, as well as developing sectoral market and delivery strategies. In addition, each would serve as the key interlocutor between USIPO and the contracting institutions for technical assistance in programs in each area. These individuals would be responsible for monitoring the performance of the technical assistance providers.

Given the greater number of "export ready" firms in the light industry sector, it is recommended that there be two industry coordinators working under the light industry export promotion manager, while there would be no professionals working

directly for the agricultural export promotion manager, at least initially. It is suggested that one industry coordinator work in tandem with the export promotion manager on a given industry, with the other industry coordinator working in another industry. As USIPO gains experience in export promotion, and more industries are added, each professional in this area would be responsible for one or two industries.

Reflecting the importance of information services, it is recommended that a separate Information Services Manager position be created. This person would be responsible for the preparation of promotional materials and promotional campaigns, the collection of market information and the overall management of the institution's management information system. Actual operation of the MIS would be conducted by the support staff.

The Financial Program Manager would serve as the chief financial officer and would be responsible for monitoring the financial aspects of institution, including all accounting functions.

The design team recommends the following approach for administrating services conducted by contracted institutions or firms (e.g., activities carried out under EC and other USAID projects). Given the highly specialized skills of firm-specific technical assistance, it is recommended that these services be conducted by institutions and firms under contract to USIPO. As USIPO will often be required to contract for services, it is important that USIPO develop an expertise in negotiating and managing service contracts, both on a short-term individual contracts and on long-term service contracts with firms or other types of institutions. Indeed, USIPO's ability to manage service contracts will be a crucial factor in the long-term sustainability of the institution.

C. Proposed Training Plan for USIPO

1. Introduction

This training plan for USIPO includes training activities for the organization as a whole to encourage team-building and achieve consensus on mission, goals, and activities. It also contains individualized courses for staff members. This section outlines the institution's key training needs and suggests training topics for both the organization as a group and for individual positions.

In addition to the formal training highlighted below, the Technical Advisor to the Executive Director and the Technical Advisor on Export Promotion will offer continual on-the-job training to management and staff.

As part of this training, the Technical Advisor on Export Promotion shall draft and continuously update an Export Manager Certification Manual, and an accompanying set of Certification Tests. The Manual shall contain information on target markets and industries, distribution networks, and local industry that is considered essential to functioning effectively as Export Manager. Each Export Manager must master the material contained in the manual and pass the Certification Tests before being promoted to Manager, or within a short period of time (1 - 2 months) of being hired as Manager.

2. Core Training Needs

The following skills have been identified as playing an important role in determining the success of promotion organizations.

Skills Needed for Effective Management

1. Developing Annual Strategic Plans
2. Supervising Staff
3. Preparing Annual Budgets

Skills Needed for Effective Information Management

1. Understanding Programming Language Used in Systems
2. Resolving Computer User Difficulties
3. Undertaking Minor Equipment Repairs
4. Managing Network, Back-up System

Skills Needed for Effective Export Promotion

1. **Understanding the Product (Egyptian competitiveness vis-a-vis other nations)**
 - o The Egyptian business climate, including all applicable laws and regulations.
 - o Selling points (comparative advantages)
 - o Negative aspects to downplay
 - o Knowledge of the competition

2. **Understanding the Markets**
 - o Industries in which Egypt has a comparative advantage
 - o For each target industry:
 - Market size in target country
 - Market trends (growth, profits, location)
 - Import penetration ratio
 - Geographic sourcing patterns
 - Egyptian advantages to stress
 - Trade regulations

3. **Understanding Local Suppliers**
 - o In each target industry:
 - Exporters and their capabilities (products, quantities, price ranges)
 - Export-ready firms and their technical assistance needs

4. **Tools of Export Promotion Marketing**
 - o Writing effective letters and press releases
 - o Creating a results-producing ad
 - o Making an effective oral presentation
 - o Preparing for and participating in trade shows
 - o Following up in a timely fashion

5. **Customer Service**
 - o Business communication (oral, written, phone)
 - o Time management
 - o Complaint management

Skills Needed for Effective Secretarial Support

1. Business correspondence
2. Telephone techniques
3. Foreign language skills

3. Recommended Training Exercises

Once a full staff is assembled, it is advisable to convene a one-week course on Export Promotion, attended by the entire professional staff. To keep the course interesting, it should contain a variety of pedagogical techniques, including lectures, discussions, panels, role playing, and independent exercises. The course should cover the following topics.

Export Promotion Fundamentals

A. Developing An Effective Organization

Goals
Characteristics of Successful Promotion Organizations

B. Export Promotion: The Corporate Perspective

How Companies Make the Decision to Import

C. Target Export Industry Basics

Target Markets: Distribution Systems, Major Players
Terminology
Competitor Characteristics

D. Sales Techniques

Steps to Successful Selling
Techniques for Closing the Sale
Cold Calls
Trade Show Booth Handling
Direct Mail
Advertising
Other methods

E. Client Relations

F. Other Topics to be Determined

The course can be offered by a combination of local and foreign consultants, legal experts, local industry representatives, and marketing consultants.

In addition to group training, individual staff members should attend training courses, either in Egypt or overseas. Specific training needs will depend on an individual's education and past experience. Below, the likely training needs are described, by position.

Executive Director

1. Executive Management Techniques (1 - 2 week, intensive, executive level)
2. Strategic Planning Techniques

Suggested course providers: Top universities in Egypt and the United States often offer executive-level courses lasting 2-4 weeks.

Export Promotion Managers, Industry Coordinators

1. Sector-specific industry orientation programs in target markets (i.e., the apparel markets in Europe; agribusiness markets in Europe)
2. Sector-specific market access programs in target markets (i.e., import procedures for agricultural exporters to the E.C.; import regulations for apparel into Europe)
3. Sales and marketing techniques

Suggested course providers: Law firms, customs specialists, trade centers.

Information Services Manager

1. Courses in programming language selected
2. Equipment maintenance

Suggested course providers: Hardware manufacturers, vendors, software companies.

The technical assistance contractor to USIPO will be responsible for designing and implementing a comprehensive training program for USIPO. Consequently, it is recommended that this task be included in the contractor's terms of reference. However, it is likely that the procurement process for obtaining a technical assistance contract will take up to six months. Therefore, in order to commence staff training on a timely basis, it is recommended that USIPO staff participate in standard courses put on by established organizations during the interim period before a master contract is put into place.

Possible candidate organizations that currently conduct training courses relevant to USIPO include the following:

- o The World Trade Institute, part of the World Trade Center;
- o The American Economic Development Council, which administers courses on export-import operations and techniques for using computers in development projects;
- o Sandler and Travis, a trade advisory group; and
- o North Carolina State University, which administers a seminar on the fundamentals of textiles.

For most of these courses, USIPO staff would simply be required to register and pay course fees in order to participate.

4. Staged Training Program

The proposed staging of the USIPO training plan is presented below.

Stage I

The first stage of training, to take place during the project's first year of operation, should be geared toward equipping USIPO to function effectively as an export and investment promotion unit. The specific courses will of course depend on the qualifications and experience of individual staff members. The first phase of training is likely to contain the following courses.

- o For the Executive Director: A package course on export promotion from an established organization such as one of those identified above.
- o For the entire staff: Export Promotion Fundamentals (tailored course, offered on-site).
- o For each Export Promotion Manager: Sector-specific industry orientation program in a target market.
- o For the support staff: Business Correspondence and Telephone Skills in Target Market Languages (i.e., English, French, German).
- o For the Information Services Manager: Programming and equipment maintenance.

Stage II

While Stage I training lays the groundwork for an effective organization, Stage II training will give USIPO personnel a competitive edge over personnel in similar institutions. Stage II training is advanced training to provide additional skills to USIPO staff, and will take place during the project's second year of operation. Stage II training is envisioned to include the following:

- o For the entire staff: Advanced export promotion (tailored course, offered on-site).
- o For each Export Promotion Manager: Advanced sector-specific industry program in a target market.
- o For each Export Promotion Manager: Market access for target industries into target markets (special access programs, regulations, procedures, paperwork, quotas and duties).

ONGOING TRAINING FOR INCOMING STAFF

The Technical Advisor on Export Promotion will offer continual on-the-job training to management and staff. In addition, all incoming Export managers must master the material in the Export Manager Certification Manual, a self-study manual to be developed under the project. They should participate in sector-specific training as soon as possible. All new support staff should complete training in business correspondence in an appropriate language.

Staff turnover is an endemic problem in investment and export promotion organizations, as new private businesses lure away the trained staff through lucrative salary and benefit packages that can't be matched by the non-profit sector. Therefore, the "Stage I" and "Stage II" training programs will be repeated continuously throughout the life of the project as new staff enter, receive basic and then advanced training, and then leave the organization. In order to retain skilled, experienced staff, and keep training costs down, USIPO should assure that salaries offered are competitive.

D. Long-Term Funding Strategy for USIPO

Most of USIPO's budgetary expenditures in its first years of operation will be covered by the A.I.D. cooperative agreement. However, a long-term strategy for seeking financial self-sufficiency will be developed by USIPO. Experience has shown that promotion agencies that prove their worth to the business

community and country are able to obtain long-term funding, but the precise nature of financing varies considerably. Accordingly, USIPO should focus in initial attention on increasing its ability to provide useful services effectively and on a cost-efficient basis.

USIPO's fund raising strategy should be "entrepreneurial" in seeking out reliable sources of funding to support USIPO. However, the plan should adhere to certain principles:

- o The USIPO Board and Management should take direct responsibility for taking all necessary courses of action to assure the long-term viability of the organization.
- o Funding should to the maximum extent possible be derived from recipients of benefits from USIPO activities and services.
- o Funding activities should not alter USIPO's basic role of providing information and services objectively and in a non-discriminatory fashion.
- o All financing and fund-raising activities should be designed and implemented in a fully transparent manner to assure the highest standards of legitimacy.

The goal of the funding strategy will be to obtain increasing incremental shares of USIPO's costs from a variety of non-A.I.D. sources which support the institutional mission of USIPO. The term "non-A.I.D. sources" is defined to include all possible private and public funders. The following potential funding sources will be explored in detail:

- o User fees for services;
- o Membership dues;
- o Receipts from a possible business assistance registry;
- o In-kind donations from individuals or corporations; and
- o Core or program support from non-A.I.D. donor agencies, such as the European Community.

A tailored fund-raising program will be developed for each candidate selected.

It is clearly appropriate for USIPO to seek user fees for certain services rendered to specific users of those services. The source with the greatest potential would be "success fees" for assistance on initial export contracts. USIPO is currently

experimenting with a contract fee structure. In addition, fees would be charged for the provision of informational brochures and videotapes, participation in seminars, and attendance at trade and investment shows.

USIPO should consider developing a some form of corporate council or membership roster in order to derive membership dues. The Investment Promotion Council of the Dominican Republic, for example, collects dues from its members, which consist of corporations, free zone operators, business associations and individuals. These members are provided access to certain services that are not available to non-members.

One form of fund raising carried out by business organizations is the publication of a business or service registry. This registry can be geared toward potential exporters, importers or investors. Firms who register (e.g., accounting companies, law firms, travel agencies, trading companies, etc.) seek to sell their products or services by placing advertisements or listings in the registry, which is then distributed on an annual basis.

In-kind donations could include the provision of services (travel by airlines, telephone, etc.) or goods (e.g., computers, audio-visual machinery, etc.) by various "friends of USIPO." Appropriate steps would be taken to assure that such donations would be tax deductible. The strategy would simply be for USIPO to identify specific cost items (current and projected) such as communications equipment, air fares, etc., and then seek targets of opportunity for donations.

USIPO has already been approached to consider an initiative to administer a project funded by the European Community. Similar non-AID donor funding could be sought on a project or program basis from non-U.S. bilateral donors, international business organizations, Arab donor agencies, the UNDP, UNIDO, and the World Bank group.

In terms of timing and targets, USIPO should initiate its funding strategy planning during the second year of the project, after USIPO's organizational capabilities are in place. All potential sources of funding should be explored. Consistent with the project budget, USIPO should consider an ambitious strategy to obtain the following levels of funding: \$200,000 in year 3 of the project, \$700,000 in year 4 of the project, and \$1,600,000 in year 5 of the project. Some of this will be in the form of in-kind contributions of TA from Tier 1 to Tier 2 firms. USIPO's non-USAID funding in years following the project will be enough to cover USIPO's core organizational expenditures (about \$550,000 in year 5), plus a marketing and technical assistance program. Of course, the size and scope of USIPO's program will increase or decrease, depending on levels of funding achieved.

E. Terms of Reference for Technical Assistance Contractor

1. Background

Egypt's worsening trade and current account balance is a serious constraint to the economic growth of the nation. Improving this imbalance will clearly require an increase in foreign exchange earnings and a substantially higher level of productivity. Worldwide experience indicates that a higher growth of export earnings could follow from an Egyptian export promotion effort. A more active export sector would also serve to attract more investment.

Egypt has a long history of state-dominated, inward-oriented economic strategies that have resulted in an institutionalized anti-export mentality. The effect of these strategies and attitudes has been a bias toward import substitution, reflected in distorted pricing, excessive regulations, a lack of private investment, preferential treatment for public enterprises, and a lack of export-oriented production and marketing incentives.

The Export Enterprise Development (EED) Project sponsored by USAID/Egypt is designed to assist Egypt to increase private sector exports and foreign exchange earnings. The project is based on two premises, i.e., that Egypt needs: (a) to increase its exports to earn more foreign exchange; and (b) to introduce Egyptian producers to foreign markets and hence to the requirements of international competition.

The project has been targeted to focus activities on two export sectors, vegetables and fruits (non-citrus) and light manufactures. In addition, the project will concentrate on introducing and expanding exports in these product categories to two principal target markets -- Europe and the Middle East.

The project will be implemented by USIPO, an existing USAID-funded organization. USIPO has achieved important institutional improvements and gained practical experience in export promotion in recent years. The project design includes additional structural reforms, technical assistance and training to augment USIPO's organizational capabilities and effectiveness.

2. Project Description

The goal of this five-year project is to increase Egypt's sustainable economic growth through expanded foreign exchange earnings. The purpose is to increase non-traditional exports produced by Egypt's private sector.

The project will work within a two-tier program. The two-tiered approach is based on the industrial structure of the

target product areas with the greatest potential. The proposed USAID project will finance assistance to support firms within the first tier -- those most likely to achieve near-term increases in exports. Assistance for the second tier firms -- those with export potential, but only over the longer term -- will be provided primarily by other donors and other USAID projects, such as a possible European Community (EC)-funded project and the other USAID-funded projects. A limited amount of project resources will also be allocated to finance direct assistance to Tier 2 farmer producers in the following illustrative activities: strengthening importer-exporter market linkages; improving production technologies and crop varieties; developing lower cost transportation alternatives; and improving post-harvest handling. In addition, certain forms of assistance such as group seminars on marketing and quality control will be available for participation by both Tier 1 and Tier 2 firms.

The proposed project will effectively build on the positive experience gained by USIPO under an ongoing USAID-financed activity scheduled to terminate in October, 1991. The Egypt-U.S. Joint Business Council (JBC), USIPO's parent organization, serves as the implementing agency for the current and proposed projects. The project will complement Mission policy dialogue efforts by financing USIPO's efforts to promote exports (through training, technical assistance, information dissemination, etc.) and to indicate through higher export earnings the benefits of an export-led development strategy.

Project Components

The proposed project has two functional components that are interrelated so that the project will offer a comprehensive set of activities to stimulate Egyptian exports. The core component, Proactive Export Promotion, will provide hands-on assistance to Egyptian producers to assure successful export transactions. A second component, Information Services Development, will assist USIPO to develop and disseminate promotional materials and to create and maintain an information base to respond to requests from potential Egyptian and foreign business partners.

Based on the results of the analysis carried out during the development of the project paper, it was decided to focus the project activities on two nontraditional export sectors -- fruits (non-citrus) and vegetables, and light manufacturing.

The project will be phased, with the second phase being contingent on the achievement of specific institutional and quantitative objectives. Technical assistance to USIPO will be provided through an AID contract with a consulting firm selected on a competitive basis. Assistance to exporting firms will be offered directly by USIPO, by the technical assistance contractor, and through firms and individuals contracted by

USIPO. The project will be implemented through a cooperative agreement with USIPO, and through AID direct contracts with the USIPO technical assistance contractor and auditing and evaluation firms.

Overall management of the project's three components will be the responsibility of the USIPO. Management policy advice and oversight of the Project will be provided by USIPO's Board of Directors and two Industry Advisory Committees, one each for the fruit and vegetable subsector and the light manufacturing subsector. These committees will meet periodically to review progress to date, approve quarterly action plans, and provide guidance on future activities.

3. Scope of Work

a. General

USIPO will be provided a cooperative grant from USAID/Egypt for the purpose of carrying out the three functional components of the project. The technical assistance contractor (hereafter cited as "the contractor") will enter into a contract with USAID/Egypt and be responsible for assisting USIPO to carry out the following activities:

- o Operating an export promotion service providing proactive promotional and marketing services to private sector Egyptian exporters.
- o Carrying out an information development and dissemination activity to assist Egyptian exporters.
- o Administering a program to provide technical assistance to exporters in areas needed for internationally competitive ventures.
- o Taking appropriate measures to ensure that the EED project is managed effectively and prudently from an overall administrative and financial standpoint.

b. Specific Tasks

The specific tasks to be carried out by the contractor are described separately below. On project related activities, the contractor will coordinate its efforts with the TI/FI Office of USAID/Egypt. Day-to-day contractor efforts will be carried out under the general direction of the USIPO Board of Directors and management.

Task 1 - Prepare Annual Work Plans

Project activities will be conducted according to annual plans. The contractor will assist USIPO management to develop annual work plans consisting of functional initiatives under each of the Project's three components, management activities (project staff hiring, coordination, administration, etc.), and detailed financial projections. These plans will be reviewed and amended by USIPO management, and then be submitted for approval by the USIPO Board of Directors and USAID. In addition, the contractor will assist USIPO to prepare quarterly reports which focus on progress achieved in the previous quarter and substantive efforts planned for the following quarter. These reports will be reviewed and approved by the USAID and the Executive Committee of the USIPO Board.

Task 2 - Provide Management Technical Assistance to USIPO

The contractor will be responsible for extending technical assistance on organizational management to USIPO. This will include the preparation of an organizational handbook on operational and personnel procedures, procurement arrangements, and financial control systems, liaison with USAID and other public and private sector organizations, assistance on ongoing promotion and technical assistance activities, and development of a long-term organizational plan and funding strategy.

The contractor will design and implement a comprehensive training program for all USIPO staff. The program will include short-term courses offered by the contractor in Egypt and/or in the contractor's headquarters, courses offered by outside vendors, and on-the-job training. Subjects will include organizational management and planning, export promotion, and marketing for professional staff, and business communications skills and information system operation for clerical staff.

Task 3 - Assistance on Procurement of Necessary Equipment and Technical Services

USIPO will acquire all goods and services necessary to carry out the Project components. The majority will be in the form of technical assistance services, but will also include management information hardware and software as well as office and

communications equipment. The contractor will provide this procurement function. To the maximum extent possible, goods and services should be acquired according to open and competitive bidding procedures, with preferences given to qualified U.S. and Egyptian sources, particularly small and disadvantaged firms. The contractor will assist USIPO to issue appropriate purchase orders, contracts or cooperative grants to firms or organizations selected. USIPO will also be responsible for ensuring that deliverables are of appropriate quality and quantity, and are presented on time and on budget. USAID will provide USIPO with necessary documents and guidance on Agency for International Development (A.I.D.) procurement guidelines.

Task 4 - Carry Out "Proactive" Export Promotion Activities

The contractor will assist USIPO to organize and conduct promotional initiatives that include the following activities.

The development of an active export marketing strategy and program. The contractor will work closely with USIPO to develop an effective export marketing network overseas, concentrating on European and Middle Eastern markets for targeted Egyptian exports. This will require the preparation and implementation of comprehensive marketing strategies for fruit and vegetables and light manufactures for European and Middle Eastern countries.

The design and management of firm and sector specific assistance activities. The contractor will work closely with USIPO in identifying and designing technical assistance activities required by specific Egyptian firms or sectors to improve product quality, packaging, shipping, etc. It is anticipated that as much as possible this will be provided by local private consulting firms. The consultant assist USIPO in developing overall bi-annual plans for providing project financed firm-specific assistance to Tier 2 firms and, as necessary, prepare proposed terms of reference for the procurement of such assistance. The consultant will also will assist USIPO in the monitoring the implementation of this assistance. The consultant should give special attention in these proposed plans to the need to provide direct assistance to Tier 2 farmer producers in the following illustrative areas: strengthening importer-exporter market linkages; improving production technologies and crop varieties; developing lower cost transportation alternatives; and improving post-harvest handling. In addition, certain forms of assistance such as group seminars on marketing and quality control should be made available for participation by both Tier 1 and Tier 2 firms. The consultant should also assist USIPO in the coordination of firm-level assistance to Tier 2 firms financed from other projects and programs such as IESC and EC activities.

The contractor should also assist USIPO in exploring specific opportunities for Tier 2 firms to benefit from industry level assistance from Tier 1 companies to Tier 2 firms. In the agriculture area, for example, TA will be provided to develop collaborative supplier relationships between larger Tier 1 firms and smaller Tier 2 firms. Exporting companies can arrange for purchases of agricultural output from smaller producers to achieve larger quantities and reduced marginal transportation costs. This in turn will require the provision of certain technical services from Tier 1 to Tier 2 companies (e.g., assistance to assure quality control, the use of appropriate seed varieties, necessary handling and packing techniques, etc.). This form of "backward linkage" approach has been applied successfully in many countries, with "lead" firms establishing associated relationships with smaller producers to the mutual benefit of both firms.

In the light industry sector, the consultants should assist USIPO in exploring viable forms of backward linkages to provide supplier opportunities for Tier 2 companies. These might include subcontractor arrangements for the provision of components, packaging and other inputs or even final goods in certain categories. The development of supplier relationships is a normal economic phenomenon in all successful exporting countries such as Taiwan and South Korea. The consultants should explore specific opportunities for subcontracting and supplier arrangements. In addition, the consultants should propose initiatives to overcome non-firm specific constraints such as transportation bottlenecks will benefit Tier 1 and Tier 2 firms alike.

The consultant should propose a detailed plan for providing appropriate assistance to the Tier 1 and Tier 2 firms during the Phase I period of the project. During the third year of the project the consultant should propose a specific plan for the Phase II period of the project to provide marketing and technical assistance to the Tier 2 firms by USIPO and the Tier 1 firms.

The design and preparation of promotional materials (brochures, pamphlets, guidebooks, audiovisual presentations, etc.), and the dissemination of these materials to private sector exporters and buyers. The materials will provide objective information on doing business in Egypt, covering operating conditions, laws and procedures, and opportunities and constraints, but highlighting the positive aspects of the business climate. To indicate an emerging competitiveness vis a vis other countries in the region, the materials should be high in quality and be produced in sufficient quantity to allow for widespread distribution.

Participation in trade shows, and organization and implementation of export development seminars and missions. Trade shows, seminars and missions constitute an important element of promotion, but require careful design and implementation to maximize effectiveness and minimize costs. The contractor will work with USIPO to plan and implement promotional activities. The contractor will also assist USIPO to undertake pre-planned actions to follow-up on leads generated by seminars and other promotional activities.

Arrangement of individual meetings between interested buyers and Egyptian exporters. Export contracts are struck at meetings between business leaders. The contractor will assist USIPO personnel to arrange meetings between prospective buyers and Egyptian exporters, and to host meetings between buyers and sellers and potential joint venture partners. This facilitating role will be supplemented by the creation of a list of firms which express interest in trade transactions and joint ventures in specific product categories.

Other promotion activities. The best promotional programs are entrepreneurial, in that they take advantage of opportunities that arise and are not limited to pre-programmed actions. Therefore, the EED project should include an entrepreneurial element. For example, brochures can be distributed at business hotels, and short videotapes can be placed at airports or on hotel closed circuit systems. Pro bono promotional services can be obtained from legal, accounting or consulting firms, which produce guidebooks as a form of passive marketing, or from international firms and banks, which host seminars for traders or investors. These and similar efforts should be encouraged, but approved in advance through annual or quarterly work plans.

Task 5 - Administer Information Services Development Component

In addition to general promotion, USIPO will be charged with developing and maintaining an information database and distribution network. The contractor will be responsible for procuring software for this interactive computer system. In addition to a general database on export industry operating conditions in Egypt, overseas market intelligence and export-related legal and regulatory requirements, the system will include lists of buyers and sellers, as well as specific trade opportunity notices.

The contractor will be charged with identifying, assessing and obtaining other relevant information from outside sources in both electronic and hard copy. These might include such services as Reuters, marketing letters, Dun and Bradstreet, the World Trade Center, U.S. trade and corporate registers, etc., which provide useful information for export development. USIPO's MIS

system, to be developed with the assistance of the contractor, will also include an export lead management system to monitor the progress of prospective export transactions, and to calculate export volumes of firms assisted by USIPO. The MIS will also provide information on Tier 2 firms assisted through the project and through Tier 1 firm backward linkages.

4. Level of Effort and Contractor Requirements

The EED project is designed as a "turn key" project, with the technical assistance contractor providing assistance for the first three years of the five-year project. During this time, the contractor will concentrate on developing USIPO's organizational capabilities to promote Egyptian exports. The project calls for the following level of effort and technical assistance personnel.

Long-Term Management Advisor -- 3 person years

This advisor will provide management and operational assistance to USIPO on a full-time basis for three years. On a day-to-day basis, the advisor will report to the Executive Director of USIPO. However, the advisor will also serve as project liaison with USAID.

This advisor will also be responsible for: coordinating and overseeing the planning and development of all project targets and workplans, including direct assistance to Tier 1 and Tier 2 firms; conducting financial and business analysis of proposed activities; monitor compliance with work plans; coordinating the selection of Tier 1 and Tier 2 firm participants; and programming and coordinating the provision of any needed long or short-term expatriate assistance (and to assure that this assistance effectively complements the provision of USIPO contracted local consulting firm expertise).

In terms of qualifications, the management advisor should have at least five years experience in organizing and managing and export promotion unit. The advisor should have a comprehensive understanding of export marketing principles and strategies, and will be familiar with promotional techniques. The advisor should also have experience in agribusiness and exports. The advisor should have an advanced business or related degree.

Long-Term Promotion Advisor -- 2 person years

The promotion advisor will directly assist in the planning and implementation of export promotion activities by USIPO. The advisor will work closely with USIPO promotion staff, and provide on-the-job training on promotional activities, including exporter

preparation, participation in trade shows, development of promotional material, etc.

The advisor should have a strong background in export promotion techniques, and at least several years of experience in promotion. The individual should have an advanced degree in business or a related field.

Short-Term Technical Assistance -- 4 person years

Over the course of the project, the contractor will be asked to provide short-term technical assistance experts in fields directly related to the goals and operations of USIPO and to directly assist in the design and implementation a program of firm-specific assistance to Tier 2 firms. Assignments will be developed in annual work plans. Most assignments will be carried out in Egypt. The contractor will be expected to access experts, either in-house staff or consultants, in the following areas:

- Export marketing and promotion
- Promotional material preparation
- Management information system specification
- Computer applications software and systems
- Economic and business analysis
- Quality control in fresh fruit and vegetables
- Production techniques in fresh fruit and vegetables
- Horticultural production
- Open field row crop as well as protected agriculture
- Small farm, peasant agriculture systems
- Post-harvest handling and transport
- Packing house design
- Hydroponics and irrigation
- Plant pathology
- Low volume spray technology
- Specialized crop production
- Quality control in light manufacturing
- Production techniques in light manufacturing
- Export trading techniques and requirements
- Packaging
- Small business management training and assistance
- Export financing

The contractor should make all possible efforts to acquire technical assistance expertise from small business vendors and qualified disadvantaged and women-owned firms (8a and Gray Amendment firms).

ANNEX E

ECONOMIC ANALYSIS

Overview:

As explained in more detail in the Technical Analysis (Annex C), the economic environment for export promotion activities has improved significantly in recent years, and especially in the past five months as a result of measures taken as part of Egypt's Economic Reform Program. With the devaluation of the Egyptian pound and the establishment of a market-based exchange rate system, perhaps the most important condition for successful export promotion has been put in place. As a result of the Structural Adjustment Program being implemented with the World Bank and the proposed trade sector reform project being developed by USAID, the Egyptian Government is expected to continue to liberalize trade policy and thereby eliminate the most important constraints to export growth. Important steps include the reform of the duty drawback and exemption program, the establishment of a competitive and open cotton processing industry, and the elimination of import bans except for health or security reasons.

Although improvement of the policy environment is not a specific objective of the Export Enterprise Development Project, the project will indirectly help to accelerate movement toward a market-based and outward-looking economy. Most importantly, by increasing the growth of exports, the project promotes an outward orientation in Egypt. Moreover, the improved production technology and quality controls required for foreign market penetration will allow producers to compete more effectively in local markets. The competitive process will force producers now concentrating on local markets to adopt the same methods as exporters, thereby increasing efficiency and productivity in domestic markets. The project will assist only private sector firms, and will not assist companies that owe their competitiveness to subsidies.

At current exchange rates, Egyptian labor costs are the lowest in the Mediterranean region. Combined with Egypt's geographic and political positions, which provide rapid and low cost transport and preferential access to EC and Middle Eastern markets, these low labor costs make Egypt potentially highly competitive in labor-intensive products (light industry) using primarily local inputs. Egypt's year-long growing season and irrigated agricultural system also allow the country to possess strong potential in fresh fruit and vegetable exports.

Even without any further improvement in the economic policy environment, a number of light industry goods and fresh fruit and vegetables are already competitive in target markets. Except for some important transport constraints for agricultural exports, the most significant constraints to more rapid expansion of exports in these sectors are firm-specific. Past statist and inward-looking policies have left Egyptian firms with limited export experience and a lack of market connections or information.

Despite recent growth in exports in the target industries, overall levels remain low relative to Egypt's potential and compared to the performance of similarly endowed neighboring countries. For example, Tunisia possesses only about one seventh of the population of Egypt, but exports over ten times more garments to Europe. Egyptian exporters lack market information, need assistance in marketing to Europe and the Middle East, and require assistance to improve their production efficiency and quality control capabilities. It is specifically these needs which the Export Enterprise Development Project is designed to address.

Economic Assessment

Sufficient experience now exists to demonstrate that an appropriate economic policy framework, i.e. one which stresses reliance on market forces, openness, and competition, is the single most important factor in ensuring that a country achieves its export potential. Experience also demonstrates, however, that even given sound economic policies, export promotion activities can play a positive, and well justified, role in improving export performance. This is simply because the equalizing of incentives for domestic market and export production, which is implicit in open, market-oriented economic policies, is often not enough to overcome export barriers resulting from lack of information, poor understanding of world markets, or preconceptions on the part of buyers concerning the quality or reliability of export supply.

A variety of institutions have been used to promote exports. In Singapore, for example, multinational corporations were instrumental, and a similar role was played in Taiwan by overseas family members. In South Korea and Japan, large domestic trading companies linked to manufacturing firms served as the key source of information. In Costa Rica, Hong Kong and Tunisia, foreign buyers who contract for goods are the major sources for information on production, design, packaging, and marketing.

In the particular case of Egypt, the GOE has recently embarked upon an ambitious economic reform program which focuses on stabilization and sectoral reforms that improve the efficiency and competitiveness of Egypt's economy. If the Government adheres to this program, then at least certain segments of the economy will

have the potential to benefit significantly from a well designed trade promotion program. In fact, the economics literature supports the notion that a highly selective export promotion program is the most cost effective promotion approach for an economy in transition towards a market orientation. 1/

In Egypt, the light industry and fruit/vegetable sectors have already demonstrated significant export potential--with exports to Europe and the Middle East more than tripling (in nominal terms) since 1987. If the project results in even modest export increases in these two sectors, which is likely, then it will be justified economically.

Table 1 summarizes the project financed USIPO interventions which will occur over the project lifetime and provides quantitative estimates of the increases in the nominal values of exports likely to result from such interventions. Specifically, assisted firms are assumed to be able to increase their exports, due to improved marketing information and technical assistance, by 20 to 30 percent per year as a result of USIPO activities. These increases, while significant at the firm level, are modest when compared with total Egyptian exports in the light manufacturing and fruit/vegetable sectors. For example, annual project-related export increases amount to at most 13 percent and 3.5 percent of Egypt's light industrial and fruit/vegetable exports in 1989/90. Moreover, the current Egyptian shares of the export market to the EC and Middle East for the relevant products are only about 0.3 percent and 1 percent respectively--thereby indicating considerable room for expansion.

Table 2 summarizes the economic benefits and costs of the project under the impact assumptions described above. Projects costs, in nominal terms, are assumed to be a constant \$2 million over the first three years and then to increase to \$3.25 annually over the last two years due to the USIPO contribution. After accounting for assumed local and foreign annual inflation rates of 15 percent and 5 percent respectively, real annual project economic costs are as presented in Table 2. Similarly, real economic benefits (with the assumed annual 5 percent foreign inflation removed) are also summarized in Table 2. These estimates of economic benefits and costs, when appropriately discounted, yield a net present value of \$3.4 million and an economic internal rate of return of in excess of 200 percent.

1/ See D. Keesing, "The Four Successful Exceptions", World Bank, 1988.

Overall, the Project offers a potentially high economic return. This finding, however, is contingent upon both the assumed project-related increase in exports and the GOE's continued adherence to its Economic Reform Program. If relevant exports do not increase either because of generally unfavorable developments relating to the GOE's macroeconomic and trade policies, or because of the ineffectiveness of export promotion activities, then the ex poste economic returns to the project will be much lower than indicated here.

TABLE 1

**Estimated Direct Increase in Exports
Due to Project Financed USIPO Interventions**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>Total</u>
<u>Light Industry</u>						
# of Industries Promoted	2	3	4	5	6	6
# of Firms Assisted	40	62	66	75	84	
Increase in Exports (\$ Millions)	6.75	16.5	15.7	15.1	13.1	67.10
<u>Fresh Fruit and Vegetables</u>						
# of Firms Assisted	15	15	15	15	15	
Increase in Exports (\$ Millions)	0.75	1.6	2.3	2.7	3.4	10.75
<u>Total</u>						
# of Firms Assisted	55	77	81	90	99	
Increase of Exports (\$millions)	7.5	18.1	18.0	17.8	16.5	77.85

TABLE 2

**Economic Benefits, Costs, and Returns to
Project Financed USIPO Interventions
(Constant 1992 \$ Millions)**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>Total</u>
Economic Benefits*	1.5	3.4	3.2	3.1	2.7	13.9
Project Economic Costs	2.0	1.8	1.6	2.3	2.1	9.8
Net Economic Benefits From Project	-0.5	1.6	1.6	0.8	0.6	4.1

EIRR=over 200 percent; net present value=\$3.37 million**

Defined as 20 percent of the value of increased exports due to project financed USIPO interventions. This 20 percent is assumed to reflect the net return to the Egyptian economy of increase light manufacturing and agricultural exports.
Discount rate = 10 percent

ANNEX F

Lessons Learned in Similar Projects

This appendix draws upon concrete examples and lessons learned from past donor experience to assist in the appropriate design of the Export Enterprise Development Project. These lessons have been gathered directly by the design team in its evaluations and through an examination of a considerable body of literature examining successes and failures encountered in similar projects.¹ The following specific lessons have been incorporated into the project design.

1. An honest examination of a host country's business and policy climate should precede the development of promotional programs.

Even the most sophisticated promotional programs cannot sell a bad investment climate or poor quality products. Several recent studies on Egypt's operating and policy climate indicate that the project should focus on exports. Successes in expanding exports will in turn provide a basis and support for investment initiatives.

2. Promotion agencies should target their resources towards sectors or industries which offer the greatest potential for growth.

Promotional efforts must necessarily capitalize on a country's strengths. Those nations that have targeted their activities appropriately (e.g., Mauritius and the Dominican Republic on free zone assembly, Taiwan on labor-intensive goods in previous years and on computer peripherals in recent years, Malaysia on electronic components, etc.) have performed well. Alternatively, numerous mistakes have been made and consequently resources were wasted (e.g., the Eastern Caribbean nations' attempt to attract

¹ See, for example, SRI International, "An Assessment of Investment Promotion Activities," 1985, and "Trade and Investment Project Guidebook," 1991; Robert Nathan Associates and Louis Berger International, "Export Promotion and Investment Promotion: Sustainability and Effective Service Delivery," 1990; Louis Berger International, "Promoting Trade and Investment in Constrained Environments: AID's Experience in Latin America and the Caribbean," 1990; IPAC, Inc., "Developing an AID Trade and Investment Strategy," 1990; and others.

electronics, Kenya's efforts to promote intermediate goods producers, etc.) Egypt's economic endowments indicate that the nation possesses strong but underutilized comparative advantages in nontraditional agriculture and light manufacturing. This finding is supported by actual figures on Egypt's nontraditional export growth, in which these sectors have been growing rapidly over the past four years despite policy and regulatory constraints. Accordingly, the project will concentrate on these two sectors.

3. Promotional programs should develop and nurture domestic constituencies in support of private sector initiatives.

Export and investment activities offer a natural focal point for market-oriented business executives and efforts. The private sector participants in CINDE in Costa Rica and the IPC in the Dominican Republic actively seek appropriate policy reforms and improvements in the business climate. Similarly, the proposed project will include the gathering of sector advisory groups of increasingly influential private sector executives. These executives, individually and collectively, will identify export and investment constraints (policy and other) and will make recommendations for reforms and improvements.

4. Promotion agencies should not attempt to be the monopoly provider of market information or business advisory services to local or foreign firms. In addition, these agencies should not duplicate the efforts of others. Rather, they should collaborate with existing official agencies and encourage the generation of competitive, fee-based provision of these services.

Given the diversity and the high degree of specialization of the information needed by firms, it is not feasible for one organization to be the sole provider. Moreover, competition for these services should help to increase their effectiveness. Promotion agencies should encourage firms to use private firms to meet their specialized information needs. The success of the USAID/Indonesia project, where use of private consulting services for entrepreneurs was partially funded by AID, indicates the efficacy of employing private firms to provide specialized information and services.

To follow this guideline, the project provides for USIPO to offer initial general information, but to refer traders and investors to outside services for more detailed assistance. In addition, USIPO will collaborate with other agencies and organizations (e.g., the NARP Project, the proposed EC program, IESC, etc.) to carry out marketing and technical assistance. This will leverage the resources and services of non-project organizations and avoid overlaps and duplication.

5. Specific and realistic trade and investment project goals and quantifiable performance indicators should be adopted in order to increase the likelihood of effective design and execution.

In the early years of AID-funded trade and investment initiatives, projects suffered from a lack of clear, objective targets. Implementing agencies, technical assistance contractors and Missions alike adopted varying goals, changed emphases and generally did not "stick to business." The result was disappointing performance and even indications of failure when projects actually succeeded. For example, a promotion project in the Eastern Caribbean (PDAP) was driven by unrealistic employment generation goals, which led to over-reporting of job creation and inadequate attention given to other important activities such as institutional development and sustainability.

Objective goal setting will establish standards for measuring the effectiveness of project components. Such objectives might include specific institutional achievements, levels of project activity, and quantitative performance targets such as increases in exports that can be measured and confirmed objectively. In addition, standards can serve to insulate projects from unnecessary political attacks by demonstrating measurable achievements, and help to justify additional funding as more ambitious goals are set. To guide the proposed project, a series of reasonable and quantifiable goals have been established.

6. In cases where projects are nontraditional or resources are limited, project phasing is an appropriate technique to stimulate performance and allow for cancellation or mid-course corrections.

Too often, AID-funded activities have proceeded for years without serious attention being given to performance or viability in an environment of changed conditions. This was true of the PDAP project in the Eastern Caribbean, the promotion project in SRI Lanka, and even the USIPO and feasibility studies projects in Egypt. Major changes and improvements have been implemented in the Egyptian projects over the past three years, and additional refinements are incorporated into the proposed project. However, to ensure that close scrutiny be applied and that an appropriate level of flexibility in scope and activities be provided, the proposed project has been designed in two phases. An objective evaluation of progress achieved and of prevailing conditions at the end of the first phase will be undertaken to reach a determination as to whether the project should proceed to the second phase.

7. Complete self-financing of trade and investment initiatives is not a realistic goal, although non-AID funds generated from a variety of sources can make a significant contribution to the overall budget in the medium-term.

No export promotion agency has ever been able to become totally self-financing. Competition among countries and promotion agencies makes it infeasible to charge high fees to exporters or investors for services provided. Some fees can be collected, but they are generally only sufficient to cover marginal costs (e.g., publications, seminars, trade shows, etc.). Promotion organizations that have effectively "proven their worth," however, can generally be able to cover a significant share of their costs from membership fees, corporate or individual contributions, funding from host governments or other non-AID donors, and such fund-raising activities as corporate registries.

8. Trade and investment projects take time to show results, especially in countries with initially weak business climates. AID should be prepared to finance promotional programs at a minimum of three to five years in order to show high returns.

In most aid-recipient countries, adverse policy environments, weak infrastructure and general lack of experience among local firms imply that efforts to improve their export and investment performance will take time. In the initial years, objectives should focus on the specific activities of the program, such as institutional development, information generation and promotional activities undertaken. "Bottom line" results such as increases in exports or investment should be reserved for later periods of performance.

9. Promotion agencies should initially focus on installing their organizational systems and capabilities before embarking on expensive marketing.

Many promotional organizations (e.g., Jamaica, Panama, Kenya, etc.) have wasted large amounts of resources engaging in active marketing (advertising, foreign missions, etc.) before they had the capacity to follow up on leads generated. In most settings, more time and effort should be spent with existing prospects than on generating new leads. The proposed project emphasizes this lesson, concentrating initial activities on staff training, installation of effective lead management systems, and development of ancillary services such as IESC assistance. In addition, USIPO will test the viability of using existing overseas business networks before considering even the possibility of expensive foreign offices.

ANNEX G

Design Issues and Potential Problems/Solutions

A number of major design issues were identified as requiring further analysis during the intensive review and development of the project. This annex describes these issues and presents recommended solutions for potential problems identified.

1. Sustainability

Various AID-financed studies¹ indicate that export or investment promotion agencies have never been able to become totally self-financing. Even the most successful T & I efforts, including the Investment Promotion Council (IPC) in the Dominican Republic and the Costa Rican Coalition for Development Initiatives (CINDE), which were supported in a much more favorable policy environment, took several years before effective institutional capabilities were developed, and still these organizations are not totally self-financing.² Some fees can be collected by promotion agencies, but are generally only sufficient to cover marginal costs, e.g., publications, seminars, and trade shows. Promotion agencies that have effectively "proven their worth" might be able to cover a significant share of their costs from membership fees, corporate or individual contributions, funding from host governments or other non-AID donors, and such fund-raising activities as corporate registries.

Accordingly, even though USIPO clients may be willing to pay a fee for assistance in reaching a successful export transaction, the experimental nature of the project recognizes that some of the proposed activities may involve public services and may not be suitable for sale by a private entity. For example, the extent to which Egyptian businesses are willing and able to pay for information, policy analysis, etc., remains to be seen.

¹ Louis Berger International, Inc., "A.I.D. Evaluation Special Study No. 69," May 1990.

² SRI International, "Trade and Investment Guidebook," prepared for the Bureau for Asia and Private Enterprise, January 1991.

In addition, structuring a project around only those businesses willing and able to pay for USIPO's services would result in limiting direct beneficiaries to existing exporters, thus not encouraging a broadening of the base of exporters. Furthermore, USIPO services may be considered public services which are directed at promoting exports in those high potential growth sectors that are currently underdeveloped and perceived as risky and which are essential to achieve the objectives of increasing exports and foreign exchange.

Rather than including the self-sustainability of USIPO as an objective, the project will support USIPO's efforts to institute an effective funding strategy based on the premise that the value of the organization -- its work and the services it will provide -- are of sufficient value to warrant its continued existence. In this regard, USIPO has already initiated a program to collect "success fees" through agreements with its export clients.

To address this issue, the design team recommends that the USIPO experiment of collecting "success fees" continue. In addition, USIPO management should examine the feasibility of USIPO implementing alternative fund-raising activities, examine various combinations of revenue generation and contributions from non-AID government, private and international sources, and prepare a detailed financial plan that would allow USIPO to support itself without AID funding after the five-year AID project.

2. Controlling "Inside Information" Abuses in Trade and Investment Promotion Projects

Many business leaders in Egypt express considerable concern about abuses related to "inside information." Inside information relates to the excessive controls and distortions in the policy environment offering greater "rents" to business opportunities that manage to "make it through the system."

Similar concerns have been raised in other developing countries e.g., Thailand, Indonesia, Dominican Republic, Kenya, etc. Usually the "insider information" abuses occur when staff or Boards of Directors from Export and Investment Promotion Councils attempt to steer investment or trade leads from foreign firms to their own firms or to firms of relatives or close friends.

There are several methods available for minimizing the insider information abuses in the management of a successful trade and investment promotion program. These methods are discussed in turn below.

- a. All trade and investment inquiries received by the promotion center can be made available to the public at frequent intervals (through periodic listings, press releases, etc.).

- b. If the promotion organization has a corporate dues-paying membership, leads and inquiries received can be passed on to the entire membership, giving preference over outside firms.
- c. Prospective investors and traders initiating leads often do not want to be inundated with calls from prospective "local partners." Under these circumstances, the lead initiators can be given pre-determined lists of reputable firms by industry or sector, or lists of business service providers (e.g., consulting firms, banks, law firms and accounting firms) as appropriate. In this way, the initiators are free to contact local firms directly using competitive forces to influence their final decision.
- d. In general, prospective traders and investors should be provided objective information on alternative sites and arrangements with no specific "recommendations" by the promotion organization. This information should be presented in printed form to allow public scrutiny and correction.
- e. Promotion organization personnel and members of the Board of Directors could be asked to sign conflict of interest pledges not to vote on any issue that affects their business directly. Use of appropriate selection criteria for both the staff and the Board of Directors can also help to minimize insider information abuse.

The design team recommends that the USIPO Board of Directors consider these alternative techniques for addressing possible conflicts of interest and abuse of "insider information."

3. Implications of the Lautenberg Amendment

The design of the proposed project focuses on two broad categories of exports for project support: Fruits (non-citrus) and vegetables; and light manufacturing items. Support for the export of garments and leather products has been recommended. The extent to which AID can provide support for the export of these products is governed by section 559 of the FAA, (the "Lautenberg Amendment").

To address this issue, a comprehensive analysis was carried out by the Mission and the design team. This analysis, which is summarized in Annex C, concludes that the project does not violate the Lautenberg Amendment. Annex C also includes a set of recommended steps to ensure that violations do not take place in the future.

4. Administrative Overload

Given the range of activities that fall under the responsibility of USIPO, a concern was raised over the issue of administrative overload imposed on USIPO management. In order to avoid serious overload, it was recommended that USAID carefully coordinate the planning and implementation of Tier 1 project financed activities with those of Tier 2 technical assistance activities to be financed by other projects and programs. In addition, the project design now provides for USAID financed technical assistance advisors to be in Egypt for at least three years, working with USIPO to strengthen USIPO's existing systems and capabilities, before and during the activities outside this project begin to be implemented. In addition, the project design calls for a streamlining of procedures used for administering the investment feasibility study program. Finally, the design eliminated the constraint analysis component of the project, although for different reasons.

EXPORT ENTERPRISE DEVELOPMENT PROJECT
FINANCIAL PLAN
AID GRANT RESOURCES

<u>Component</u>	<u>Total \$</u>
I. <u>Proactive Export Development</u>	
A. USIPO Operating Expenses	
Salaries and Benefits	1,056,000
Other Direct Costs	1,120,000
Capital Costs	<u>70,000</u>
Subtotal	2,246,000
B. Firm and Sector Specific TA	
USIPO/USAID Contracted TA	1,200,000
Buy-in TA	<u>500,000</u>
Subtotal	1,700,000
C. Trade Shows and Seminars	1,700,000
D. Institutional Development	
USAID Contracted TA	2,687,000
Buy-in TA	442,000
Training	<u>225,000</u>
Subtotal	3,354,000
Component Total	9,000,000
II. <u>Information Services Development</u>	
MIS Hardware and Software	250,000
TA and Training	220,000
USIPO Salaries and Benefits	160,000
Promotional Materials	<u>120,000</u>
Component Total	750,000
III. <u>Evaluation and Audit</u>	250,000
PROJECT TOTAL	<u>10,000,000</u>

**EXPORT ENTERPRISE DEVELOPMENT PROJECT
PROJECTED TA BUDGET**

I. Central TA Contract

A. Expatriate TA

	<u>Burdened Monthly Rate</u>	<u>Person- Months</u>	<u>Cost in \$U.S.</u>
1 LT Management Advisor	20,833	36	750,000
1 LT Promotion Advisor	20,833	24	500,000
ST TA	20,833	56	1,177,000
Subtotal TA Personnel			<u>2,427,000</u>
Travel			188,840
Promotional Materials			120,000
Materials, Supplies, Communications, etc.			42,000
Contingencies (8%)			<u>194,160</u>
Subtotal Expatriate TA			2,972,000
B. <u>MIS Equipment Procurement</u>			248,000
C. <u>Training</u>			
Tuition (\$3K X 24 courses)			72,000
Travel (\$3K X 24 trips)			72,000
Subsistence (21 days @ \$115 per day)			58,000
Local training			<u>48,000</u>
Subtotal Training			250,000
TOTAL COST OF CENTRAL TA CONTRACT			<u>3,470,000</u>

II. Buy-in TA

Person-month cost of Short-term assistance:	
Salary: \$308 X 20 X 3.75 multiplier	23,100
Per Diem: \$115 X 28	3,220
Travel:	<u>3,000</u>
Subtotal: person-month cost	29,320
Total for 31 ST Assignments	908,920
TA Support Costs	<u>63,080</u>
TOTAL COST OF BUY-IN TA	<u>972,000</u>

III. Firm and Sector Specific TA

A. U.S. Source

53 person-months @ \$20,833 per month	1,110,000
Contingencies (8%)	<u>90,000</u>
Subtotal	1,200,000

B. U.S. or Egyptian Source

100 person-months @ \$8,400 per month	840,000
Transportation	100,000
Equipment Rental	30,000
Materials, Supplies, Communications, etc.	65,000
Office Space and TA Support Staff	75,000
Contingencies (8%)	<u>90,000</u>
Subtotal	1,200,000

C. In-kind Contribution

Estimated Value of extension services provided by Tier 1 firms to Tier 2 firms.	<u>550,000</u>
TOTAL COST OF FIRM AND SECTOR SPECIFIC TA	<u>2,950,000</u>

**EXPORT ENTERPRISE DEVELOPMENT PROJECT
ILLUSTRATIVE TRADE SHOW AND SEMINAR COSTS**

I. Trade Shows

<u>A. Average Cost per Trade Show</u>	<u>Years 1-3</u>	<u>Years 4-5</u>
Trade Show Fees	3,000	3,000
Equipment Rental	1,000	1,000
Travel (7-9 persons)	11,000	14,000
Per diem (\$200 per day X 7 days)	<u>10,000</u>	<u>14,000</u>
Subtotal	25,000	32,000
<u>B. Cost of Planned Trade Shows</u>		
Years 1-3 (37)		925,000
Years 4-5 (30)		<u>960,000</u>
Subtotal Trade Shows		1,885,000

II. Seminars

<u>A. Average Cost per Seminar</u>	<u>Years 1-3</u>	<u>Years 4-5</u>
Travel (4-6 persons)	12,000	24,000
Per diem (\$120 per day X 7 days)	3,360	5,040
Fees and other costs	<u>640</u>	<u>960</u>
Subtotal	16,000	30,000
<u>B. Cost of Planned Seminars</u>		
Years 1-3 (13)		215,000
Years 4-5 (12)		<u>350,000</u>
Subtotal Seminars		565,000
TOTAL COST OF TRADE SHOWS AND SEMINARS		<u>2,450,000</u>

C. Other Direct Costs

Rental of Larger Office Space (20,000 + 23,000 + 27,000 + 31,000 + 36,000)	137,000
Local Transportation (25,000 per year)	125,000
Vehicle Purchase	25,000
Vehicle Maintenance and Operation (8,000 per year)	40,000
Subscriptions (\$4,000 per year)	20,000
Telephone and Fax (30,000 per year)	150,000
Postage (\$4,000 per year)	20,000
Office Supplies (10,000 per year)	50,000
Travel (\$100,000 per year)	500,000
Other	<u>55,000</u>
Subtotal Other Direct Costs	1,122,000

C. Capital Costs

Office Refurbishment	20,000
Furniture	15,000
Office Equipment (Fax, etc.)	<u>35,000</u>
Subtotal	70,000

TOTAL USIPO OPERATING EXPENSES 2,408,000

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**EXPORT ENTERPRISE DEVELOPMENT PROJECT
PROJECTED MIS EQUIPMENT BUDGET**

I. A. Hardware

Host Computer	\$ 18,000
Math Coprocessor	1,000
Personal Computers (Six X \$6,000)	36,000
Laptop PCs (Two X \$4,000)	8,000
DAT Tape Backup	2,000
Laser Printer	5,000
Plotter	2,000
Modem/Fax (3 X \$330)	1,000
Mouse (7 X \$150)	1,000
UPS for Host Computer	2,000
UPS for PCs (7 X \$600)	4,000
Shipping	<u>10,000</u>
Subtotal	90,000

B. Software

Package systems (Operating Systems Wordprocessing, Spreadsheet, etc. (7 X \$2,000)	14,000
Project Monitoring System	20,000
Export Promotion System	50,000
Feasibility Study System	25,000
Technical Assistance and Training	25,000
Financial Management System	20,000
System Integration	<u>4,000</u>
Subtotal	158,000

TOTAL MIS COST 248,000

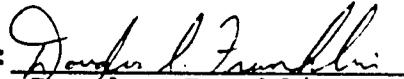
**APPROVAL OF ADVANCES AND APPROVAL OF ADVANCES
IN EXCESS OF 30 DAYS CASH REQUIREMENTS**

As Mission Director of USAID/Egypt, I have determined that the advance financing in this project paper's implementation and financial plan is warranted. In addition, I have determined that implementation of this Project (No. 263-0226) will be seriously interrupted or impeded by applying the 30 day rule to advances paid under the Treasury Check method. I hereby approve the granting of up to a 90 day revolving advance to the organizations and GOE agencies implementing this project as required by the methods of implementation and financing section of this Project Paper.

This approval is based upon considerations and justifications discussed in the methods of implementation and financing section of this Project Paper to which this approval is a part thereof.

In accordance with Handbook 1B, Chapter 15 all recipients of advances must have a Financial Management System adequate for controlling and accounting for U.S. Government funds. The USAID Controller will make such a determination before the first advance is made.

CONCURRENCE:


Douglas Franklin
Controller

9/10/91
Date

APPROVED:


Henry A. Bassford
Director

SEP 10 1991

Date

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The Country Checklist for FY 1991 is contained in the Project Paper for the International Executive Service Corp Project No. 263-0229.

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

- | | |
|--|---|
| 1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions. | Yes. The Project will foster private initiative and competition. It will discourage monopolistic practices and improve the technical efficiency of industry, agriculture, and commerce. |
|--|---|

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2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- The Project provides financing for some long term technical assistance to USIPO which will be provided by U.S. private sector contractors. Activities under the Project may directly encourage joint ventures and investment by the U.S. private sector.
3. Congressional Notification
- (a) General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?
- Standard Congressional Notification procedures will be satisfied prior to obligation of funds.
- (b) Notice of new account Obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?
- N/A.

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- (c) Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted? N/A.
4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? Yes.
5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country, with respect to an obligation in excess of \$500,000, what is the basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance? No such action is required.
6. Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent N/A.

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practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)? N/A.
8. Capital Assistance (FAA Sec. 611(e)). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has the Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? Not such a Project.
9. Local Currencies
- (a) Recipient Contributions (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509.) Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, Assistance is provided under this Project directly to a private entity under a grant, therefore, the host country contribution requirement does not apply. AID will finance local currency, as well as foreign exchange costs

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and foreign currencies owned by the U.S. are utilized in lieu of dollars.

of the Project. U.S.-owned Egyptian currency is not available specifically for this Project.

(b) U.S.-owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

(c) Separate Account (FY 1991 Appropriations Act Sec. 521). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies

N/A.

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

N/A.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending

N/A.

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on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? N/A.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? N/A.

10. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? No.

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on No. The cooperative agreement which will be entered into between A.I.D. and USIPO will include a covenant prohibiting USIPO from providing A.I.D. financed assistance to exporters which violates the

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Lautenberg Amendment.

articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

11. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? No.

12. Sahel Accounting (FAA Sec. 121(d)): If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A.

13. PVO Assistance
 - a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization N/A.

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provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): N/A.
If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

14. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). Case-Zablocki Act reporting procedures will be followed with respect to this Project.
15. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development") Will assistance be designed so that the percentage of women The Project will encourage more active participation by women in private sector activities. USIPO will be instructed to place

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participants will be demonstrably increased?

a high priority on assistance to women owned or operated firms. USIPO will develop a list of women owned companies engaged in exporting and recruit them to apply for and receive USIPO services. Disaggregated data on participation of women in Project activities will be collected.

16. Regional and Multilateral Assistance (FAA Sec. 209). Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No. The purpose of the Project is to increase non-traditional exports produced by Egypt's private sector by promoting both exports and export oriented investments, and is appropriate for country-specific assistance.

17. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525): (a) Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? (b) Will any funds be used to lobby for abortion?

No.

18. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

N/A.

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19. Procurement

- a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes.
- b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? Yes.
- c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Egypt does not so discriminate.
- d. Non-U.S. agricultural procurement (FAA Sec. 604(e)) If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A.
- e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from N/A.

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firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. Cargo preference shipping (FAA Sec. 603): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

50/50 Shipping rules will apply to this Project.

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are

Yes.

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particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): if air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes.

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504) If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes.

j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? Yes.

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, Sec. 5164, as interpreted by conference report, Yes.

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amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements grants and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes.

20. Construction
a. Capital project (FAA Sec. 601(d)): If capital N/A.

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- (e.g., construction) project, will U.S. engineering and professional services be used?
- b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed will they be let on a competitive basis to maximum extent practicable? N/A.
- c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? N/A.
21. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A.
22. Communist Assistance (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes.
23. Narcotics
- a. Cash reimbursements (FAA Sec. 483): Will Yes.

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arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, and such controlled substance?

24. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes.
25. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.

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- 26. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes.
- 27. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.
- 28. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes.
- 29. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes.
- 30. Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes.
- 31. Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes.

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32. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? **Yes.**
33. **Publicity or Propaganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? **No.**
34. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? **Yes.**
35. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569) Will any assistance be provided to any foreign government (including any instrumentality or agency thereof). foreign **No.**

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person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

- C. CRITERIA APPLICABLE TO Economic SUPPORT FUNDS ONLY
1. Economic and Political Stability (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? Yes.
 2. Military Purposes (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? No.
 3. Commodity Grants/Separate Accounts (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A.
 4. Generation and Use of Local Currencies (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be N/A.

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available to support activities consistent with the objectives of FAA sections 103 through 106?

5. Cash Transfer Requirements N/A.
(FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer: a. Separate account: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?
b. Local currencies: will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?
c. U.S. Government use of local currencies: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S.

Annex I

Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

d. Congressional notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate the economic policy reforms that will be promoted by the cash transfer assistance?



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

ACTION MEMORANDUM FOR THE ENE BUREAU ENVIRONMENTAL COORDINATOR

DATE: April 18, 1991 *Ken Phang*

FROM: Ken LuePhang, Mission Environmental Officer (MEO),
USAID/Cairo

SUBJECT: Export Enterprise Development Project (263-0226)
Concurrence in Categorical Exclusion of the Initial
Environmental Examination (IEE)

ISSUE:

Your concurrence in the Categorical Exclusion for the subject project is requested.

BACKGROUND:

The purpose of the Export Enterprise Development (EED) Project is to increase non-traditional exports by Egypt's private sector, and to establish within USIPO an effective institutional capacity to promote exports. The project is based on the premise that (a) Egypt needs to increase its exports to earn more foreign exchange; and (b) that Egypt needs to introduce Egyptian producers to foreign markets and hence to the requirements of international competition. The major export focus will be on two sectors: fruits (non-citrus) and vegetables, and light manufacturing. To achieve the project's purpose, EED project will utilize four functional components: "Proactive" Export Promotion; Information Services Development; Support For Export-oriented Investment; and Constraint Analysis. The project and USAID funding will be phased, with the second phase being contingent on the achievement of specific institutional and quantitative objectives.

DISCUSSION:

The project will effectively build on the positive experience gained primarily by the Egyptian private sector (U.S. Investment Promotion Office (USIPO) and participating private firms.) Its activities would complement Mission policy dialogue by financing USIPO's efforts to promote export and export-oriented investments through training, technical assistance, seminars, information dissemination, feasibility studies, etc. There will also be a small fund set aside to contract for analysis of obstacles encountered by exporters and investors and to report on measures to overcome these problems. The present USIPO activities are being funded by USAID and will terminate in October, 1991 unless further activities are funded by this EED Project.

There are no environmental problems associated with this project. The expected achievements are mostly institutional and regulatory improvements and an increase in private sector exports by \$400 million through increases in the volume of exports in 15 fruit/vegetable products and 10 light manufacturing products. All four of the project components, therefore, qualify for a Categorical Exclusion pursuant to paragraph (c)(1)(i) of Section 216.2, "Applicability of Procedures," of Title 22 CFR part 216, "AID Environmental Procedures." The action does not have an effect on the natural or physical environment.

AUTHORITY:

AID Environmental Procedures under 22 CFR 216.2 (c)(3) state that a Categorical Exclusion determination shall be reviewed by the Bureau Environmental Officer in the same manner as a Threshold Decision under 22 CFR 216.3(a)(2). You may indicate your concurrence with the foregoing determination by signing in the space below and on the attached Record of Categorical Exclusion.

RECOMMENDATION:

That you concur in the Categorical Exclusion from AID Environmental Procedures for the Export Enterprise Development Project.

APPROVED : Ronald Greenberg
Ronald Greenberg, ENE/TR

DISAPPROVED: _____

DATE : 5/6/91

Clearance:

T. Hammann, TI/FI [Signature]
B. Smith, OD/ENG [Signature]

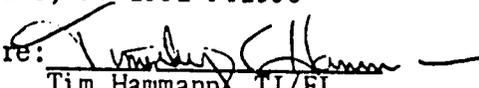
Drafted by:KLP:klp:rh:04/18/91
ID: BASIC

INITIAL ENVIRONMENTAL EXAMINATION

Project Location: : Egypt

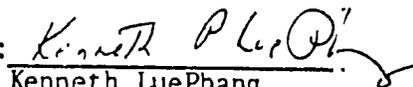
Project Title and Number : Export Enterprise Development
: No. 263-0226

Funding : A.I.D.:LOP US \$10.0 million
Other Donor US \$ 2.7 million
Five Years, FY 1991-FY1996

IEE prepared by : Signature: 
Tim Hammann, TI/FI
USAID Project Officer

Date: 4/20/91

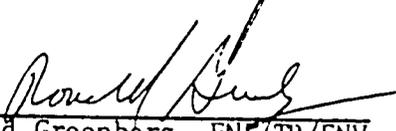
Environmental Action Recommended : Categorical Exclusion

Mission Environmental Officer's Concurrence : Signature: 
Kenneth LuePhang

Date: April 21, 1991

Associate Mission Director's Concurrence : Signature: 
Paul Thorn

Date: _____

Decision of Environmental Officer, Bureau for Asia and Near East : Concur: 
Ronald Greenberg, ENE/TR/ENV

Not Concur: _____

Date: 5/6/91

INITIAL ENVIRONMENTAL EXAMINATION

Project Title: Export Enterprise Development (EED) Project
and Number: No. 263-0226

Discussion of Major Environmental Relationships of Project Relevant to
Attached Impact Identification and Evaluation Form:

The EED Project will effectively build on the positive experience gained primarily by the Egyptian private sector (U.S. Investment Promotion Office (USIPO) and participating private firms.) Its activities would complement Mission policy dialogue by financing USIPO's efforts to promote export and export-oriented investments through training, technical assistance, seminars, information dissemination, feasibility studies, etc. The major export focus will be on two sectors: fruits (non-citrus) and vegetables, and light manufacturing.

The expected project achievements are mostly institutional and regulatory improvements and an increase in private sector exports by \$400 million through an increase in the volume of exports in 15 fruit/vegetable products and 10 light manufacturing products.

To achieve the project's purpose, the EED project will utilize four functional components: "Proactive" Export Promotion; Information Services Development; Support For Export-oriented Investment; and Constraint Analysis. There will also be a small fund set aside to contract for analysis of obstacles encountered by exporters and investors and to report on measures to overcome these problems. The present USIPO activities are being funded by USAID and will terminate in October, 1991, unless further activities are funded by this Ex&IP Project.

There is no foreseeable adverse health impact from this project. Health and social impact should be positive if one assumes a higher income population is able to achieve a higher level of social and physical well-being. We should expect an improved socio-economic impact by the increased income to the rural areas, by reducing rural migration, and by increasing and diversifying productivity of the rural and provincial population.

IMPACT IDENTIFICATION AND EVALUATION FORM

Impact
Identification
and
Evaluation 2/

Impact Areas and Sub-areas 1/

A. LAND USE

1. Changing the character of the land through:	
a. Increasing the population -----	N
b. Extracting natural resources -----	N
c. Land clearing -----	L
d. Changing soil character -----	N
2. Altering natural defenses -----	N
3. Foreclosing important uses -----	N
4. Jeopardizing man or his works -----	N
5. Other factors	
_____	_____
_____	_____

B. WATER QUALITY

1. Physical state of water -----	N
2. Chemical and biological states -----	N
3. Ecological balance -----	N
4. Other factors	
_____	_____
_____	_____

1/ See Explanatory Notes for this form.

2/ Use the following symbols: N - No environmental impact
 L - Little environmental impact
 M - Moderate environmental impact
 H - High environmental impact
 U - Unknown environmental impact

August 1976

IMPACT IDENTIFICATION AND EVALUATION FORM

C. ATMOSPHERIC

- 1. Air additives ----- N
- 2. Air pollution ----- N
- 3. Noise pollution ----- N
- 4. Other factors -----
-
-

D. NATURAL RESOURCES

- 1. Diversion, altered use of water ----- N
- 2. Irreversible, inefficient commitments ----- N
- 3. Other factors -----
-
-

E. CULTURAL

- 1. Altering physical symbols ----- N
- 2. Dilution of cultural traditions ----- N
- 3. Other factors -----
-
-

F. SOCIOECONOMIC

- 1. Changes in economic/employment patterns ----- L (Beneficial)
- 2. Changes in population ----- N
- 3. Changes in cultural patterns ----- N
- 4. Other factors -----
-
-

IMPACT IDENTIFICATION AND EVALUATION FORM

G. HEALTH

- 1. Changing a natural environment _____ N
- 2. Eliminating an ecosystem element _____ N
- 3. Other factors _____ L (Beneficial)
- Morbidity/Mortality _____
- _____

II. GENERAL

- 1. International impacts _____ N
- 2. Controversial impacts _____ N
- 3. Larger program impacts _____ N
- 4. Other factors _____
- _____

I. OTHER POSSIBLE IMPACTS (not listed above)



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

ACTION MEMORANDUM TO THE DIRECTOR

DATE: August 28, 1991
FROM: Robert Jordan, OD/PDS/PS
THRU: Christopher Crowley, AD/PDS
SUBJECT: APPROVAL OF PROJECT PAPER AND PROJECT AUTHORIZATION

PROBLEM: Your signature is required approving the Project Paper and Authorization for the Export Enterprise Development Project, Number 263-0226 for \$10.0 million.

DISCUSSION: The PP was reviewed by the project committee on August 5, 1991 and final comments have been incorporated. The executive committee met on August 22, 1991 to discuss final issues. The decisions resulting from that meeting have been incorporated into the final version of the PP as follows:

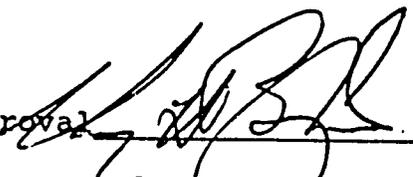
- Additional discussion highlighting the positive policy reforms undertaken by the GOE in its efforts to improve the export climate has been incorporated on pages two and three of the PP.
- The \$1.0 million project budget line item for investment feasibility studies has been eliminated and the money has been redistributed into the proactive export promotion component of the project. The funds will be used to provide additional technical assistance for Tier II firms.
- The current status discussion of USIPO's institutional capabilities has been expanded to reflect changing staff and MIS requirements. These changes were incorporated on page 30 of the PP as well as page 5 in Annex D.
- A summary of the planned technical assistance procurements has been incorporated in the PP and can be found at pages iii and 37.

WAIVERS:

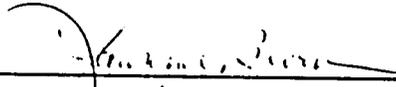
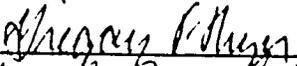
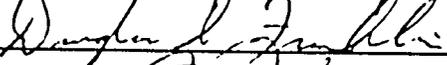
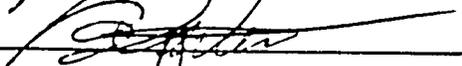
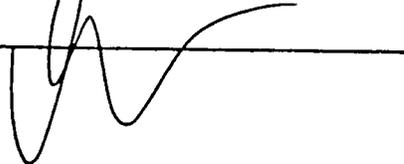
A justification to waive competitive grant award procedures, which would allow USAID to enter into a cooperative agreement with the Joint Business Council to utilize USIPO as the implementing entity of the project, is presented on page 39 of the PP. By signing the PP facesheet you will be approving the waiver.

RECOMMENDATION:

That you sign subject Project Paper facesheet, Project Authorization and Gray Amendment Certification.

Approval 
 Disapproval _____
 Date 9/2/91

Clearance

L. Brown, OD/TI/FI: 
 G. Huger, AD/TI/FI: 
 D. Franklin, AD/FM: 
 T. Carter, LEG: 
 G. Wachtenheim, D/DIR: 



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt
Name of Project: Export Enterprise Development Project
Number of Project: 263-0226

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended (the "Act"), I hereby authorize the Export Enterprise Development Project (the "Project") for the Arab Republic of Egypt ("Cooperating Country") involving planned obligations not to exceed Ten Million United States Dollars (\$10,000,000) in grant funds over a five year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. Operating Year Budget/Allotment process, to help in financing the foreign-exchange and local-currency costs of goods and services required for the Project. The estimated life of the Project is five years from date of initial obligation.

2. The Project will assist in increasing Egypt's private sector exports and foreign exchange earnings by focusing on export promotion. It will provide assistance to Egyptian producers to assure successful export transactions in the areas of vegetables and non-citrus fruits and light manufactures. The Project will also develop and disseminate promotional materials and create and maintain an information base to respond to requests from potential Egyptian and foreign business partners regarding Egyptian exports.

3. The Project Agreement may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority. The Project shall be subject to the following essential terms, together with such other terms, conditions, and covenants as A.I.D. may deem appropriate.

a. Source and Origin of Goods and Services

Goods and services financed by A.I.D. under the Project, except for ocean shipping, shall have their source and origin in the United States, or in Egypt as authorized pursuant to the requirements of State 410442, except as the USAID/Cairo Mission Director, or his/her designee, may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed on flag vessels of the United States.

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4. Based upon the justification set forth in the Project Paper, I hereby determine, in accordance with Section 612(b) of the Act, that the expenditure of United States Dollars for the procurement of goods and services in Egypt is required to fulfill the purposes of this Project; the purposes of this Project cannot be met effectively through the expenditure of U.S.-owned local currencies for such procurement; and the administrative official approving local cost vouchers may use this determination as the basis for the certification required by Section 612(b) of the Act.


Henry H. Bassford
Director
9/2/91
Date

Clearances:

- OD/TI/FI, LBrown
- AD/TI, GHuger
- AD/PDS, CCrowley
- AD/FM, DFranklin
- OD/PDS/PS, RJordan
- LEG, VMoore
- D/DIR, GWachtenheim



DRAFTED:LEG:VMoore:mf:(8/25/91):(AUTH226)

